# UNITED STATES–PEOPLE'S REPUBLIC OF CHINA (PRC) TRADE RELATIONS, INCLUDING MOST-FAVORED-NATION TRADE STATUS FOR THE PRC

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## HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

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JUNE 19 AND 21, 1990

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# UNITED STATES-PEOPLE'S REPUBLIC OF CHINA (PRC) TRADE RELATIONS, INCLUDING MOST-FAVORED-NATION TRADE STATUS FOR THE PRC

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TUESDAY, JUNE 19, 1990

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:32 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press releases announcing the hearings follow:]

FOR IMMEDIATE RELEASE
FRIDAY, JUNE 1, 1990

SUBCOMMITTEE ON TRADE #29
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

## THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON UNITED STATES-PEOPLE'S REPUBLIC OF CHINA (PRC) TRADE RELATIONS, INCLUDING MOST-FAVORED-NATION TRADE STATUS FOR THE PRC

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will hold a public hearing on U.S.-China trade relations, including the question of China's most-favored-nation (MFN) status. The hearing will be held on Tuesday, June 19, 1990, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

Nondiscriminatory MFN trade status was first granted to the People's Republic of China on February 1, 1980, and has been renewed annually since then on the basis of a Presidential waiver of the freedom of emigration requirements of subsections 402(a) and (b) of the Trade Act of 1974. President Bush notified Congress on May 24, 1990, of his intention to waive the Trade Act's freedom of emigration requirements once again and thereby extend China's MFN status for an additional year.

The President's waiver authority under the 1974 Trade Act expires on July 3 of each year. It may be extended on an annual basis upon a Presidential determination and report to Congress that such extension will substantially promote the objectives of the Trade Act with respect to freedom of emigration. Under current law, the waiver authority continues in effect unless disapproved by either the House or the Senate within 60 calendar days after July 3. However, the 1983 Supreme Court decision in Chadha v. INS raised serious questions about the constitutionality of such one-house vetoes. The Court ruled that legislation intended to have the force of law must be acted upon by both chambers of Congress and be presented to the President for signature or veto in order to meet constitutional requirements.

The House and Senate currently are in conference on a trade bill, H.R. 1594, which contains provisions to correct any constitutional infirmities in current law. Specifically, both the House and Senate versions of the bill provide for the use of a joint resolution of disapproval of Presidential waivers and reports relating to the Trade Act's freedom of emigration requirements. The time period available for Congressional action and other technical matters remain to be resolved in conference.

Since nondiscriminatory trade status was granted to China in 1980, bilateral trade has grown four-fold, reaching $18 billion in 1989. The major U.S. exports are wheat, commercial aircraft, phosphate fertilizer, and high technology equipment, such as computers and scientific instruments. Major U.S. imports from China are toys, games, and sporting equipment; apparel; footwear; and crude oil. Many of those imports would be subject to non-MFN duty rates of about 60 percent if China's MFN status were revoked. An estimated 70 percent of China's exports to the United States are transshipped through Hong Kong.

The purpose of the hearing is to examine overall U.S. trade relations with the People's Republic of China and to consider the President's recommendation for extension of the waiver authority for

(MORE)

China for an additional year on the basis of that country's emigration performance. The Subcommittee will be interested in hearing testimony on China's emigration policies and practices; on the nature and extent of U.S. trade and investment ties with China; and on the potential impact -- on China, Hong Kong, and the United States -- of a cutoff of China's MFN status.

The Subcommittee also will be interested in witnesses' views on a number of pending bills and resolutions relating to China's MFN status -- H.J.Res. 578 (introduced by Mr. Frank, et al), H.J.Res. 581 (introduced by Mr. Lantos, et al), and H.J.Res. 586 (introduced by Mr. Solomon, Mr. Schulze, et al), all of which would disapprove the President's waiver and extension of MFN status to China; H.R. 4866 (introduced by Mr. Solomon, Mr. Schulze, et al), to deny China's MFN status 15 days after date of enactment; and H.R. 4931 (introduced by Mr. Kostmayer, et al) and H.R. 4939 (introduced by Mr. Pease, Mr. Andrews, Mr. Anthony, Mr. Cardin, Mr. Donnelly, Mr. Moody, et al), adding new conditions for renewal of China's MFN status in the future.

## DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler or Diane Kirkland [telephone (202) 225-1721] by close of business Tuesday, June 12, 1990. The telephone request should be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statement to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

## WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any interested person or organization may file written comments for inclusion in the printed record of the hearing. Persons submitting written comments for the printed record should submit at least six (6) copies of their comments by the close of business Monday, June 25, 1990, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearing wish to have their statement distributed to the press and the interested public at the hearing, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

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FOR IMMEDIATE RELEASE
FRIDAY, JUNE 15, 1990

SUBCOMMITTEE ON TRADE #31
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3943

## THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A CONTINUATION OF THE PUBLIC HEARING ON UNITED STATES-PEOPLE'S REPUBLIC OF CHINA (PRC) TRADE RELATIONS, INCLUDING MOST-FAVORED-NATION TRADE STATUS FOR THE PRC

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will schedule an additional day of the public hearing on U.S.-People's Republic of China (PRC) trade relations, including most-favored-nation trade status for the PRC. The hearing will be held on Thursday, June 21, 1990, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

This hearing is a continuation of the Subcommittee's hearing scheduled to be held on Tuesday, June 19, 1990. (See Subcommittee press release #29 dated June 1, 1990.)

All other details concerning the hearing remain the same.

* * * * * * * * * * *

Chairman **Gibbons**. Good morning, ladies and gentlemen. We begin today the first of a series of hearings on whether or not this Congress should approve or disapprove the President's recommendation to continue our normal nondiscriminatory tariff treatment for commercial purposes with the People's Republic of China.

This is a serious matter and one which in the last 10 years has not provoked much discussion here in Congress. But since the unfortunate occurrences in Tiananmen Square and the violent response by the Chinese Government, concerned voices in this Congress and throughout the country have wanted to say to the Chinese people, and to the Chinese leaders, that responding to nonviolent demonstrations in that manner is not what we in America like to see our trading partners do.

We have had so many requests for witnesses to testify that we are going to have to extend this hearing to at least 2 days. Because of the schedule of legislative business, particularly conferences with the Senate in which this committee is engaged, I am going to not ask a lot of questions this morning but will let people make their statements. I hope people will be reasonably brief, although I don't expect to cut anybody off. Without objection, all statements will be included in the record as if they had been delivered in full.

Mr. Frenzel, do you want to make a statement?

Mr. **Frenzel**. No, Mr. Chairman.

Chairman **Gibbons**. Our first witness this morning is our honored colleague, Representative Richard Schulze of Pennsylvania.

Mr. Schulze.

## STATEMENT OF HON. DICK SCHULZE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. **Schulze**. Thank you, Mr. Chairman. I appreciate this opportunity to present my views on the issue of most-favored-nation trade status as it relates to the People's Republic of China. Mr. Chairman, I would like to take this opportunity to commend you for taking the initiative and holding these very important hearings.

As we know, on May 24, the President made his recommendation to Congress that China be extended MFN status for another year. In doing so, he invoked his authority to waive subsections (a) and (b) of section 402 of the Trade Act of 1974—the so-called Jackson-Vanik provision.

These subsections set forth the emigration-related requirements that a Communist country must meet—now, we also have changed that designation from Communist country to non-market-economy country, but they are used somewhat interchangeably—requirements that a Communist country must meet to receive MFN treatment on the basis of its emigration law. However, in the case of China, the President has deemed that waiving such requirements—and I quote—"will substantially promote the objectives of section 402." In other words, the waiver is supposed to act as a carrot to encourage the country under consideration to implement a human and open emigration policy.

Ironically, in his May 31, 1989, transmittal to Congress regarding MFN for China, the President had the following to say, and again I quote: "Further extension of the waiver authority will substantially promote the objectives of section 402." That was May 31. The massacre at Tiananmen, 4 days later.

Notwithstanding the merciless brutalities inflicted on prodemocracy Chinese by Government hardliners in Tiananmen Square last year, China's MFN status should be revoked solely on the basis of its unsatisfactory emigration policy.

Countries found to be consistent with Jackson-Vanik's requirements maintain emigration policies that are free, open, and nondiscriminatory. Emigration has never been fully free and open in China. And, after what transpired last June, China's emigration policy is even more restrictive. Now, if that is not bad enough, the Chinese Government has become extremely skilled at using its exit permit and passport application process to continue to apprehend those it suspects to be sympathetic to the prodemocracy movement.

First, as you may know, on June 19, 1989, 2 weeks after the Tiananmen Square massacre, all exit permits or passports issued before that date were invalidated by Chinese authorities—simply invalidated. Further, the litany of nearly insurmountable road blocks that one must be subjected to in order to have an exit permit or passport reissued clearly indicates that China's emigration policy is merely facilitating the police dragnet designed to apprehend every possible prodemocracy activist.

You may also have heard about the two reports that must be prepared by those wishing to receive a passport—a new emigration-related requirement put in place since last June. These reports describe the passport applicant's performance during the events of Tiananmen Square and, according to Chinese who have been through this process, are expected to be confessional in nature in order to be credible.

In other words, the authorities don't believe you unless you have something to confess. And don't think for a second that confessing gets you a passport out of China. At best, you would be denied permission to emigrate. At worst, you would wind up in prison, perhaps tortured, but definitely a prisoner with not much of a future to speak of.

There are other blatantly discriminatory emigration requirements instituted since Tiananmen Square which merit brief mention. First is the fact that Chinese students, upon finishing college level studies in China, are required—yes, required—to work for the state for 5 years before they can be allowed to go to foreign countries to study, even at their own expense.

Then, when students do go abroad for self-finance further studies, they are required to pay a cultivation fee to the Chinese Government before they can leave. That fee, which could more aptly be dubbed "extortion fee," amounts to about what the average Chinese college graduate can expect to earn in a little over 8 years. That is right, 8 years. Tell me that that doesn't impact on one's ability to emigrate.

Does China really believe that such an emigration policy entitles it to MFN treatment? Does the President really believe that such a policy should entitle China to a waiver of the Jackson-Vanik requirements?

Winston Lord, the widely respected former U.S. Ambassador to China, recently wrote an article on this issue, an excerpt of which I would like to read.

> While many are still allowed to leave China, new restrictions have curtailed others, including students and scholars. Obviously, both dissidents in our embassy and tens of thousands in jail cannot move. Countless Chinese have no chance of getting exit papers or dare even try.

In this regard, I might add that from the 3 months immediately preceding the June timeframe during which events at Tiananmen Square came to a head, to the 3 months immediately following June, there was a 21.34 percent drop in U.S. immigrant visas issued to Chinese.

Also, according to a May 18, 1990, analysis by the Far Eastern Law Division of the Library of Congress—and, again, I quote—

> There are some indications that the rate of rejection of applications for visas, made in two major cities in the first quarter of 1990, is the worst it has been in a long time. From January to March, some 19,512 citizens of Beijing and Shanghai applied to leave the country. Those who were granted approval to go abroad numbered 15,085, which means close to 25 percent were denied permission. Even though these figures reflect the situation in only two cities for only part of the year, they are key places of exit and the decrease of approvals is dramatic.

Now, is this due to fewer Chinese wanting to leave China because they are excited about the prospects brought on by Tiananmen Square? Hardly. Rather, it seems clear that the Chinese Government and the police see a stricter emigration policy as the primary means of tracking down and imprisoning those responsible for what the Government feels to be the crimes of urging more individual freedoms and liberties.

While fiscal year 1990 State Department statistics show an increase in Chinese emigrants entering the United States, we should not be deceived by this. Indeed, many experts, including those at the Library of Congress, suspect that the percentage of Chinese applying for exit permits from the Chinese Government who are actually receiving these permits has likely dropped considerably since Tiananmen Square.

In other words, while the raw total of Chinese emigrants has increased, a vastly greater number of Chinese are trying to leave China since last June, and a vastly greater number are being refused the necessary exit permits and passports.

Therefore, for the White House and the State Department to boast about Chinese filling their U.S. immigration quotas simply misses and ignores the point. For, while Chinese emigrants may be increasing or quotas are being met, we all know how easy that is given China's 1.1 billion people, and the fact that the United States can accept only about 17,000 to 20,000 Chinese immigrants each year. The President should have based his decision on China's overall emigration policy, and that policy, as I have clearly outlined, is reprehensible.

Mr. Chairman, you and other members of the committee may recall that, 10 years ago, when we debated whether or not to extent MFN treatment to China, I suggested that instead of granting that country MFN in one fell swoop, we should extend it on an incremental basis. In other words, as China would implement measures to improve its emigration and human rights policies, the United

States would grant it additional benefits under the most-favored-nation program.

Given our uncertainty over the ability of the Chinese Government to stay true to a positive course of emigration, political, economic and other reforms, such a proposal seemed sensible. This approach was rejected and, with last year's Tiananmen Square tragedy, the President was forced to make an all-or-nothing decision regarding China's MFN status. I feel strongly he made the wrong decision.

So the basic question facing us is this: Is the U.S. Congress going to help reward a repressive regime whose emigration laws, according to that same Library of Congress analysis referenced earlier, are "so vague that the authorities can, in effect, deny the right to emigrate to any person on very little pretext"?

In the strongest terms imaginable, I urge that we do not.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you very much, Mr. Schulze.

We will go next to Mr. Frank.

## STATEMENT OF HON. BARNEY FRANK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. FRANK. Thank you, Mr. Chairman. I appreciate these prompt hearings.

It seemed to me relevant to just mention a somewhat ambiguous—although I hope not in the end—parliamentary situation, because we are dealing here, as I understand it, with legislation authorizing resolutions of disapproval, which is pre-*Chadda*. And we all acknowledge that given the *Chadda* decision, there could not simply be a resolution of disapproval without a Presidential signature. But I am assuming—and I talked to the Parliamentarian—that otherwise the procedures are to attain—that is, the fast track is relevant. And I was hoping that that would be the understanding we are under, that we obey the *Chadda* decision, obviously, as we should and have to. But, otherwise, we would try to conform with our procedures.

We have here I think a pretty clear case as to whether or not we are ever going to be serious about a commitment to human rights with a big country. It is relatively easy to be tough on human rights with little countries. The question is whether there will be an inverse relationship between our commitment to human rights and the size of the human rights violation, because the bigger the country, the more the violations will be.

Now, in previous years, we have had a problem in this human rights area, and that is geostrategic considerations which sometimes interfere. We would argue on the one hand that from the human rights standpoint we ought to do a certain thing, but we would then wonder how this would affect our place in the world. We meet here today in a world in which that has changed a great deal. We are having a hard time finding an enemy of whom to be substantially afraid. There remain in the country some people who are significantly obnoxious and who are dangerous to some of their smaller neighbors and on whose behalf—the smaller neighbors'—we should be ready to act.

But it is hard today to conjure up a major threat to our national security sufficient, in my judgment, to dilute our commitment to human rights. We have here in the People's Republic of China a country that has simply been outrageous in the human rights area. Few countries have a worse record today. We have had a period in which the President said: I can handle this, guys, back off, leave it to me. I know them, I've been there, I understand it.

In fact, the Chinese appear to have been wholly unimpressed by President Bush's approach. There is not one sign of improvement. People have said, well, tell you what, let's give them most-favored-nation treatment, and then if they don't get better, we will take it away. Well, that approach, the carrot and carrot approach, has been tried by the President for some time. And, frankly, the People's Republic of China has played the role of Bugs Bunny. They ate all the President's carrots, but we have nothing to show for it. There has simply been no improvement.

So the question then is: Why do we not stand for human rights? No one doubts that the Chinese have been abusive about human rights. There is no geostrategic argument that I can think of that says, well, wait a minute, we'd better not alienate the Chinese on this one because X—I don't know what the X is. As far as their own economic situation is concerned, if we grant China most-favored-nation treatment, we are giving ourselves the right to have a significant trade deficit. This is a nation with which we are substantially in deficit. The most recent trade figures were encouraging with most of the world, but the Chinese deficit increase.

So the question is: In the absence of any major strategic threat, should we reward the Chinese who have had this outrageous record on human rights and have been contemptuous of our efforts to make them improve it, so that we can continue to run a deficit with them in their trade? That is not one of the harder policy questions I expect to have to deal with this week. I would put it, frankly, along with some post office namings in terms of where we are as to what the policy is.

If we aren't prepared to say to the People's Republic of China, with their record on human rights and the current world situation—and what are we doing, by the way? We are not invading their country. We are not taking incredibly harsh action. We are saying you can't get most-favored-nation treatment.

Now, I agree semantically, if the committee wanted to change the name "most favored nation," I think I would go for that. It is a little bit misleading. Obviously, being considered the most favored nation when everybody else is the most favored nation, it is like having 107 best friends. I do believe that the wording is somewhat unfair in its implications. We are not giving them special treatment.

On the other hand, it is not a denial of a basic right. Most-favored-nation treatment has always been considered something a nation has a right to confer and not to confer as a matter of will. We aren't standing on their air hose. We are deciding what we should do with regard to our trade policy. And if we don't enforce human rights against the Chinese, then it doesn't seem to me that we have any basis for talking about human rights at all as a principle of our policy.

As to, well, if you don't have most-favored-nation you can't have good relations, in fact an enormous improvement has taken place in our relations with the Soviet Union with whom we don't have a most-favored-nation relationship. The absence of most-favored-nation treatment has clearly not hindered the relationship with the Soviet Union. And I must say today—and the Soviet Union is still not going to win the Gold Cup from Amnesty International or even a nice little pitcher here from the Ways and Means Committee, the fact is that if you compare the Soviet Union to the People's Republic of China on the human rights issue, the Soviet Union is much, much better. I think we are not quite ready yet to vote them most-favored-nation treatment. I am not. So how do we give it to the Chinese? It just makes a mockery of all of our arguments.

Finally, I think there is a nexus here when we talk about trade policy. When the Chinese were liberalizing in terms of their politics, when they were moving more toward a market economy in some ways, that was a valid datum in terms of trade policy. But with the retreat, not just in the human rights area but in the economic area, where they moved back to a centralized brutal economy, run on repressive means, then the notion of fair competition becomes a little tougher. I am not aware that labor unions in China are given much freedom. I don't think that occupational safety and health regulations or other of the sort of regulations that we think are basic to human rights have gotten much attention, and it has gotten worse rather than better.

So there is a nexus here because the repressiveness of that regime adds to a situation in which the competition becomes unfair, because the people who work in China are working in conditions that we would not tolerate, that we don't think are acceptable for anybody in the world, and which obviously, in the short run—we hope not in the long run, but in the short run can be cheaper.

So I hope that the committee will join us in saying, yes, we are serious about human rights, and there are no reasons whatsoever to give this.

And the final point I would say, if we are going to cave in, if we pass the bill and can't override a veto or whatever, I must say I will be very unimpressed by conditions. If we say to the Chinese, OK, you can have most favored nation, but we are warning you, I think it will be not taken terribly seriously. I don't think there is any point in our giving the People's Republic of China our 100th absolutely definitely last warning. I don't think it will have any more effect than the other 99.

Thank you, Mr. Chairman.

[Mr. Frank submitted the following:]

**DEMOCRACY FOR CHINA FUND, Inc.**

144 Hancock Street
Newton MA 02166

Tel: 617-969-3919
Fax: 617-244-0690

June 18, 1990

Congressman Barney Frank
U.S. House of Representatives
Washington DC

Dear Congressman Frank:

I understand that you will be testifying before the Subcommittee on Trade, Tuesday, June 18, 1990, regarding the extension of Most Favored Nation status to China. I wish to take this opportunity to express my belief that MFN should not be extended until China reverses its policies of repression. I hope that you will be able to present this letter to the Subcommittee, reading or inserting it into the record.

For seven weeks, during the spring of 1989, students, workers and millions of other Chinese citizens demonstrated peacefully for basic human rights -- the freedom to assemble, to speak, to seek reform. Our non-violent movement was met by tanks and soldiers: thousands died; tens of thousands were imprisoned.

I came to your country only nine days after the June 3/4 massacre. In this last year I have traveled across the United States and learned of the tremendous support American citizens have for the Chinese democracy movement. Sadly, however, your president and his administration have chosen not to reflect the views of the American public. President Bush has sent secret delegations to Beijing to kowtow before those who ordered the massacre; he has vetoed legislation to protect Chinese students in the U.S.; he has now acted to extend MFN trading status.

Your president has chosen to stand on the wrong side of history, to stand with Deng Xiaoping, Li Peng, and Yang Shangkun, to stand against the people of China. What you must understand is that when the hardliners in Beijing ordered tanks into Tiananmen Square, they lost their struggle to govern China with the support of the people. They may last one year, two years, or even five years more, but China has been awakened to the possibilities of freedom.

Although our democracy movement has been forced into exile, the pressure for change continues to grow in China. It can be seen in the military and at the highest levels of government, in villages as well as cities, in factories, schools, offices and farms.

If the U.S. extends MFN, you will be sending a powerful signal to the hardliners in Beijing that it is alright to maintain their policies of repression. You will be telling those struggling for democratic reform, in China and overseas, that the U.S. has chosen to back the repressors.

I urge that you grant MFN status for six months and that you establish the following conditions:

1. China must release the tens of thousands of political prisoners jailed both before and after the Tiananmen Square massacre;

2. China must cease its practice of arresting, punishing and executing individuals seeking the peaceful exercise of their basic freedoms, as defined in the U.N. Universal Declaration of Human Rights.

3. China must allow international human rights organization -- the United Nations, Asia Watch, Amnesty International, or some other respected groups -- to investigate human rights abuses and to establish the status of those individuals imprisoned for political reasons;

4. China must remove restrictions on the ability of students to travel to the United States and elsewhere to study; and

5. China must cease to interfere with the free transmission of information by such organizations as the BBC and VOA.

Many arguments have been assembled in favor of MFN extension. Some of them even read as if they were prepared by the People's Republic of China. Yet, if you talk to those who risked their lives last year in Tiananmen Square, to those who led the workers as well as those who led the students, and if you talk to those who have written about their country for years, you will find the strongest possible recognition that MFN should not be continued unless China ends its repression.

Ask Lu Jinghua, one of the key leaders of the workers demonstrating last spring, and you will learn of her adamant opposition to MFN. Ask Liu Binyan, China's most distinguished journalist who has stood for basic freedoms for more than three decades, and you will learn of his support for a cut-off of MFN. Ask Chai Ling, and you will learn still again that those closest to the struggle for a democratic China know that pressure from the international community can bring about important improvements.

The hardliners in Beijing will be hurt by the American withdrawal of MFN -- and they know it. Their recent, token release of political prisoners has clearly been designed to influence the actions of your government. China's economy is in disarray. Inflation is unchecked; unemployment is rising. Beijing is profoundly mismanaging the Chinese economy and desperately seeks to be rescued by the industrial economics. The renewal of MFN will not only tell those who ordered the Tiananmen Square massacre that the U.S. does not care how they act, it will also help those who are mismanaging the Chinese economy to continue their misguided policies.

When I came to your country I learned that after the 1949 Communist victory many in your country asked, "Who Lost China?" I must tell you that a few years from now, if the U.S. continues to side with the hardliners in Beijing, Americans may again be asking, "Who lost China?"

I hope you will stand with the Chinese people -- with the future of my country. I urge that you revoke MFN trading status until China resumes its march toward a freer and more open society.

Sincerely,

Shen Tong
Chairman

Chairman GIBBONS. Thank you, Mr. Frank.
Ms. Pelosi.

## STATEMENT OF HON. NANCY PELOSI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. PELOSI. Thank you very much, Mr. Chairman and members of the committee. I appreciate the opportunity to testify this morning on the question of whether or not to extent most-favored-nation status to the People's Republic of China for another year. As my colleagues do, I commend you for holding this hearing and for your continuing interest in events taking place in China.

Our distinguished colleagues, Mr. Schulze and Mr. Frank, have talked about human rights and emigration as they relate to most-favored-nation status. I will briefly talk about economic liberalization and ask unanimous consent that my fuller statement be placed in the record in the interest of time.

Chairman GIBBONS. Certainly. It will be.

Ms. PELOSI. Thank you, Mr. Chairman.

The United States granted MFN to China in order to promote the economic liberalization which began in the late 1970's, as you know. During the 1980's, privatization was encouraged. Special economic zones were established, and central government control over microeconomic decisionmaking was relaxed.

After the Tiananmen Square massacre, Beijing moved to dismantle the economic reforms that the postcultural revolution period. It froze bank lending to most private industries; it recentralized foreign trade, production planning, material allocation and pricing; it forced privatized firms to accept party members on their boards. In the year since Tiananmen Square, as many as 3 million private firms and collectives have gone bankrupt due to Chinese Government policies. Clearly, the Beijing hardliners view economic recentralization as necessary to sustain their political control.

I have consistently said that we must examine the most-favored-nation issue within the larger framework of United States-China relations. First, I have repeatedly urged the administration to oppose World Bank loans because their renewal would open the floodgates for bilateral and commercial lending, depriving us of one of our most effective sanctions. Second, although Congress sent the administration a package of sanctions against China, the administration has weakened most of them.

I believe that in the absence of strong conditions on renewal and strengthening of economic sanctions, Beijing hardliners will see an extension of MFN as a vindication of their move toward economic and political centralism. The free market can only work in China if the Beijing Government allows it to. Over the past year, however, Beijing has demonstrated its intention to weaken the free market and to silence calls for political reform.

I urge the subcommittee to adhere to the central tenet of the MFN policy: to increase the price for economic and political centralization. In the current Chinese climate, an outright extension of most favored nation would do just the opposite. It would decrease the cost to the Chinese Government of centralization and political oppression. It would also send a confusing signal to other centralized economies—that, in some cases, economic and political reform is not a precondition for preferential trade treatment.

As I mentioned, Mr. Schulze discussed and I think made the definitive statement. of emigration, and I just would like to add to that and associate myself with his remarks. Are the tens of thousands of Chinese political prisoners currently held in prisons allowed free emigration? Clearly, they are not.

In light of the current economic and political situation in China, I urge the subcommittee to oppose extension of most-favored-nation to China. If MFN is extended—and I appreciate Mr. Frank's remarks about conditions. But if it is extended, it should include at a minimum the following conditions for subsequent renewal:

The unconditional release of all political prisoners in the People's Republic of China and Tibet; a full accounting and provision of names of all those imprisoned, killed, or missing during or as a result of the Tiananmen Square crackdown and the 1987 Tibetan demonstrations; an end to Chinese Government intimidation of Chinese nationals living abroad, in the United States or elsewhere, and their families. And, in accordance with the current law governing most-favored-nation treatment, a demonstrated effort to move toward a market economy; and an end to restrictions on emigration based on political views, including granting permission to Fang Lizhi and his wife to end their refuge in the U.S. Embassy in Beijing.

The Working Group on China is currently circulating a letter to this effect to our colleagues, and I would request permission, Mr. Chairman, to submit that letter for the record before your next session on Thursday.

Chairman Gibbons. Certainly. Without objection, it will be included.

[The letter follows:]

**CONGRESSIONAL WORKING GROUP ON CHINA**
**House of Representatives**
**Washington, D.C.**

1005 Longworth Building, Washington, D.C. 20515

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June 21, 1990

The Honorable Sam Gibbons
The Honorable Philip Crane
Chairman and Ranking Member
Subcommittee on Trade
1132 Longworth Building
Washington, D.C. 20515

Dear Chairman Gibbons and Representative Crane:

We are writing to express our deep concern about the human rights situation in the Peoples Republic of China and Tibet and the impact that an extension of Most-Favored-Nation status may have on prospects for democratic change in those areas.

It is our view that any extension of MFN to China should be conditioned on:

- The unconditional release of all persons detained as a result of the Tiananmen Square crackdown and the demonstrations that took place in Tibet since 1987;
- A full accounting and provision of names of all those imprisoned, killed or missing during, or as a result of, the Tiananmen Square crackdown and the Tibetan demonstrations;
- An end to restrictions on emigration based on political views, including the granting of permission for Fang Lizhi and Li Shuxian to end their refuge in the United States Embassy in Beijing;
- A withdrawal of support for the Khmer Rouge;
- An end to the intimidation of Chinese nationals living abroad, in the United States and elsewhere, and their families.

In addition, we believe that the United States should extend MFN only in conjunction with the following actions:

- Opposition to all World Bank loans to China which do not meet a strict definition of Basic Human Needs;
- Active support of Taiwan's entry into the GATT;
- Establishment of a set of human rights principles for U.S. businesses operating in the PRC and Tibet;

- o Increase in funding for Voice of America transmissions into the PRC and Tibet;
- o Strengthening of existing sanctions passed by Congress since June 4, 1989.

Once again, we would like to state that outright extension of MFN without conditions and in the absence of the specified U.S. actions is unacceptable. We look forward to working with you on a proposal which can command broad bipartisan support and will contribute to genuine political and economic reform in China.

Sincerely,

Nancy Pelosi
Nancy Pelosi, M.C.

H Martin Lancaster
Martin Lancaster, M.C.

Louise M. Slaughter
Louise Slaughter, M.C.

John Porter, M.C.

Pat Schroeder
Pat Schroeder, M.C.

George Miller
George Miller, M.C.

Silvio Conte
Silvio Conte, M.C.

John Miller
John Miller, M.C.

Chuck Douglas
Chuck Douglas, M.C.

Sonny Callahan
Sonny Callahan, M.C.

Pat Roberts
Pat Roberts, M.C.

Charlie Rose
Charles Rose, M.C.

Gerald Solomon, M.C.

Bob Lagomarsino
Bob Lagomarsino

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China Working Group letter
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Ted Weiss

Ted Weiss, M.C.

James Scheuer, M.C.

Mel Levine

Mel Levine, M.C.

Bill Richardson

Bill Richardson, M.C.

Arthur Ravenel Jr

Arthur Ravenel, M.C.

Bob Dornan

Bob Dornan, M.C.

Cass Ballenger

Cass Ballenger, M.C.

Fred Grandy, M.C.

Ronald V. Dellums

Ron Dellums, M.C.

Peter H. Kostmayer

Peter Kostmayer, M.C.

Dick Durbin

Richard Durbin, M.C.

Howard Coble

Howard Coble, M.C.

Tom DeLay

Tom DeLay, M.C.

Steve Gunderson, M.C.

Dick Armey

Richard Armey, M.C.

Duncan Hunter

Duncan Hunter, M.C.

Ms. **Pelosi**. Thank you, Mr. Chairman.

I have heard many times over in other hearings on this subject people ask: What do the people of China think about most favored nation? And the one question that is, I believe, glaring in this instance is why have we not heard from Fang Lizhi? He lives in the American Embassy in Beijing. Have we not sought his view on the subject or other subjects relating to our policy with China? Why has he not spoken out?

Do we fear for our ability to protect him? Do we have an agreement with the Beijing authorities regarding his access to the press? I believe that this is a question that should be answered if we are to ask the question, What do the people of China think about this?

I would like to convey to the committee the sentiments of my constituents. For over 150 years, the city of San Francisco has been blessed with the largest Chinese-American population, the largest Asian population, indeed, outside of Asia. Much of the economy of our community, and especially the Chinese-American community in San Francisco and in the Bay area, is based on the import-export business. Many of these people have been doing business with China for a long time, especially in the last decade. And I have met with a broad cross-section of my constituents, and as much as their economic well-being is dependent on that trade, they have all spoken out very forcefully for human rights in China and state that, if MFN is to be extended, we should not do so unless we put these conditions on.

But I agree with our colleague Mr. Frank. We shouldn't extend MFN with conditions unless we have every intention of living up to those conditions. It would be silly and we would look weak if we were to extend it, and then 1 year from now we are gathered here again and saying, well, what about 1 more year if they do thus-and-so. If we place the conditions that they must live up to our own laws regarding MFN and certain other conditions relating to the Tiananmen Square massacre, we must be fully prepared to revoke MFN next year should those conditions not be met.

With that, Mr. Chairman, I want to again thank you for the opportunity to testify today on this important matter, and I look forward to working with you on its resolution.

[The statement of Ms. Pelosi follows:]

# STATEMENT OF THE HONORABLE NANCY PELOSI
# MOST FAVORED NATION STATUS TO THE PEOPLES REPUBLIC OF CHINA
## SUBCOMMITTEE ON TRADE

June 19, 1990

MR. CHAIRMAN: I APPRECIATE THE OPPORTUNITY TO TESTIFY THIS MORNING ON THE QUESTION OF WHETHER OR NOT TO EXTEND MOST FAVORED NATION TRADE STATUS TO THE PEOPLES REPUBLIC OF CHINA FOR ANOTHER YEAR. I COMMEND YOU FOR HOLDING THIS HEARING AND FOR YOUR INTEREST IN THE EVENTS TAKING PLACE IN CHINA -- YOUR ACTIVE PARTICIPATION IN THE CONGRESSIONAL WORKING GROUP ON CHINA HAS ADDED IMMENSELY TO ITS EFFORTS.

MOST FAVORED NATION STATUS HAS ALWAYS BEEN A TOOL BY WHICH THE UNITED STATES HAS SOUGHT TO ENCOURAGE ECONOMIC AND POLITICAL CHANGE IN COUNTRIES WITH CENTRALIZED ECONOMIES. THE POLICY OF REDUCING TARIFFS TO COUNTRIES WHICH CHOOSE MARKET-BASED ECONOMIES IS BASED ON THE ASSERTION THAT ECONOMIC LIBERALIZATION WILL LEAD TO POLITICAL LIBERALIZATION. WE, THEREFORE, ENCOURAGE BOTH PROCESSES BY REWARDING COUNTRIES THAT PURSUE THEM WITH A DRASTIC REDUCTION IN TARIFFS.

IN THE CASE OF THE PEOPLES REPUBLIC OF CHINA, THE UNITED STATES GRANTED MFN TO ENCOURAGE THE ECONOMIC LIBERALIZATION WHICH BEGAN IN THE LATE 1970s. DURING THE EIGHTIES, PRIVATIZATION WAS ENCOURAGED, SPECIAL ECONOMIC ZONES WERE ESTABLISHED AND CENTRAL GOVERNMENT CONTROL OVER MICROECONOMIC DECISION-MAKING WAS RELAXED.

AT THE SAME TIME, EDUCATIONAL EXCHANGES WITH THE WEST BECAME MORE COMMON AND WESTERN POLITICAL THOUGHT FOUND ITS WAY TO CHINESE UNIVERSITIES. THIS PUT PRESSURE ON THE CHINESE LEADERSHIP TO ACCEPT POLITICAL, AS WELL AS ECONOMIC, REFORM.

ALL OF THIS ENDED AT TIANANMEN SQUARE ON JUNE 4, 1989. IN THE BLOODY CRACKDOWN AND THE ENSUING PURGES OF LIBERAL GOVERNMENT OFFICIALS, BEIJING HARDLINERS REGAINED CONTROL AND PUSHED THEIR AGENDA OF POLITICAL AND ECONOMIC RETRENCHMENT. CLEARLY, THE BEIJING HARDLINERS DREW A CONNECTION BETWEEN ECONOMIC AND POLITICAL LIBERALISM.

IMMEDIATELY, BEIJING MOVED TO DISMANTLE THE ECONOMIC REFORMS OF THE POST-CULTURAL REVOLUTION PERIOD. IT FROZE BANK LENDING TO MOST PRIVATE INDUSTRIES; IT RECENTRALIZED FOREIGN TRADE, PRODUCTION PLANNING, MATERIAL ALLOCATION AND PRICING; IT FORCED PRIVATIZED FIRMS TO ACCEPT PARTY MEMBERS ON THEIR BOARDS. IN THE YEAR SINCE TIANANMEN SQUARE, AS MANY AS 3 MILLION PRIVATE FIRMS AND COLLECTIVES HAVE GONE BANKRUPT DUE TO CHINESE GOVERNMENT POLICIES. CLEARLY, THE BEIJING HARDLINERS VIEW ECONOMIC RECENTRALIZATION AS NECESSARY TO SUSTAIN THEIR POLITICAL CONTROL.

I HAVE CONSISTENTLY SAID THAT WE MUST EXAMINE THE MFN ISSUE WITHIN THE LARGER FRAMEWORK OF U.S. - CHINA RELATIONS. FIRST, I HAVE REPEATEDLY URGED THE ADMINISTRATION TO OPPOSE WORLD BANK LOANS, BECAUSE THEIR RENEWAL WOULD OPEN THE FLOODGATES FOR BILATERAL AND COMMERCIAL LENDING, DEPRIVING US OF ONE OUR MOST EFFECTIVE SANCTIONS. THE ADMINISTRATION, HOWEVER, HAS RESUMED ITS SUPPORT OF LENDING FOR BASIC HUMAN NEEDS AND HAS TURNED THIS DEFINITION INTO A LOOPHOLE THROUGH WHICH FORESTRY, VOCATIONAL TRAINING AND AGRICULTURAL PROJECT LOANS CAN PASS.

SECOND, ALTHOUGH CONGRESS SENT THE ADMINISTRATION A PACKAGE OF SANCTIONS AGAINST CHINA, IT HAS WEAKENED MOST OF THEM. DESPITE THE BAN ON MILITARY COOPERATION, THE ADMINISTRATION ALLOWED A CONTINUATION OF U.S.-CHINESE COOPERATION AT WRIGHT-PATTERSON AIR FORCE BASE; THE ADMINISTRATION WAIVED THE SANCTION AGAINST THE TRANSFER OF SATELLITE TECHNOLOGY; IT IMMEDIATELY RESUMED HIGH-LEVEL GOVERNMENT-TO-GOVERNMENT CONTACTS WITH CHINA BY SENDING SCOWCROFT AND EAGLEBURGER TO MEET WITH DENG XIAO PENG IN JULY AND LATER IN DECEMBER; AND, AS I MENTIONED EARLIER, IT

TURNED THE BASIC HUMAN NEEDS PROVISION INTO A LOOPHOLE FOR THE RESUMPTION OF WORLD BANK LENDING.

I BELIEVE THAT, IN THE ABSENCE OF STRONG CONDITIONS ON RENEWAL AND A STRENGTHENING OF ECONOMIC SANCTIONS, BEIJING HARDLINERS WILL SEE AN EXTENSION OF MFN AS A VINDICATION OF THEIR MOVE TOWARD ECONOMIC AND POLITICAL CENTRALISM. THE FREE MARKET CAN ONLY WORK IN CHINA IF THE BEIJING GOVERNMENT ALLOWS IT TO. OVER THE PAST YEAR, HOWEVER, BEIJING HAS DEMONSTRATED ITS INTENTION TO WEAKEN THE FREE MARKET AND TO SILENCE CALLS FOR POLITICAL REFORM.

I URGE THE SUBCOMMITTEE TO ADHERE TO THE CENTRAL TENET OF THE MFN POLICY -- TO INCREASE THE PRICE FOR ECONOMIC AND POLITICAL CENTRALIZATION. IN THE CURRENT CHINESE CLIMATE, AN OUTRIGHT EXTENSION OF MFN WOULD DO JUST THE OPPOSITE -- IT WOULD DECREASE THE COST TO THE CHINESE GOVERNMENT OF CENTRALIZATION AND POLITICAL OPPRESSION. IT WOULD ALSO SEND A CONFUSING SIGNAL TO OTHER CENTRALIZED ECONOMIES -- THAT, IN SOME CASES, ECONOMIC AND POLITICAL REFORM IS NOT A PRE-CONDITION FOR PREFERENTIAL TRADE TREATMENT.

ON ANOTHER TENET OF THE MFN POLICY, THE QUESTION OF FREE EMIGRATION, I ASK YOU: ARE THE TENS OF THOUSANDS OF CHINESE POLITICAL PRISONERS CURRENTLY HELD IN PRISONS ALLOWED FREE EMIGRATION? CLEARLY, THEY ARE NOT.

IN LIGHT OF THE CURRENT ECONOMIC AND POLITICAL SITUATION IN CHINA, I URGE THE SUBCOMMITTEE TO OPPOSE AN UNCONDITIONAL EXTENSION OF MOST FAVORED NATION TO CHINA. IF MFN IS EXTENDED, IT SHOULD INCLUDE, AT A MINIMUM, THE FOLLOWING CONDITIONS FOR SUBSEQUENT RENEWAL:

- THE UNCONDITIONAL RELEASE OF ALL POLITICAL PRISONERS IN THE PRC AND TIBET;
- A FULL ACCOUNTING AND PROVISION OF NAMES OF ALL THOSE IMPRISONED, KILLED OR MISSING DURING, OR AS A RESULT OF, THE TIANANMEN SQUARE CRACKDOWN AND THE 1987 TIBETAN DEMONSTRATIONS;
- AN END TO CHINESE GOVERNMENT INTIMIDATION OF CHINESE NATIONALS LIVING ABROAD, IN THE U.S. OR ELSEWHERE, AND THEIR FAMILIES;

AND, IN ACCORDANCE WITH CURRENT LAW GOVERNING MFN TREATMENT:

- A DEMONSTRATED EFFORT TO MOVE TOWARD A MARKET ECONOMY, AND;
- AN END TO RESTRICTIONS ON EMIGRATION BASED ON POLITICAL VIEWS, INCLUDING GRANTING PERMISSION TO FANG LIZHI AND LI SHUXIAN TO END THEIR REFUGE IN THE U.S. EMBASSY IN BEIJING.

THE WORKING GROUP ON CHINA IS CURRENTLY CIRCULATING A LETTER TO THIS EFFECT TO OUR COLLEAGUES IN THE HOUSE. I BELIEVE THERE IS CONSIDERABLE SUPPORT FOR THIS POSITION AND WOULD LIKE TO SUBMIT THIS LETTER FOR THE RECORD LATER THIS WEEK.

AGAIN, THANK YOU FOR THE OPPORTUNITY TO TESTIFY TODAY ON THIS IMPORTANT MATTER. I LOOK FORWARD TO WORKING WITH YOU ON ITS RESOLUTION.

Mr. **Schulze**. Mr. Chairman, I have been handed a note that the gentleman from New York, Mr. Solomon, will be unable to be here. I would ask that his testimony be placed in the record.

Chairman **Gibbons**. Certainly. We will include Mr. Solomon's statement at the end of this testimony.

I am going to try to recognize members of the subcommittee in the order in which we appeared here this morning, as is our custom. Let me say, though, to remind those who were not here when we opened that this committee has a caucus this afternoon, a preconference conference, and a conference this afternoon that we have to take care of. I hope all members will bear that in mind. We have a long list of witnesses, and we are going to have another day's hearing after this. I don't want to cut anybody off, but I am going to waive my time.

Mr. Frenzel, you were the first one here.

Mr. **Frenzel**. Mr. Chairman, I thank our witnesses for coming in before the committee today, and I am going to follow the chairman's example. I yield the balance of my time.

Chairman **Gibbons**. I didn't mean to be that mean, Mr. Frenzel. Let's see. Who was next over here? Mr. Matsui.

Mr. **Matsui**. Well, Mr. Chairman, I will also heed the chairman's suggestions with respect to this panel. I appreciate very much the fact that the three of them have taken the time to testify before this subcommittee.

I would like to point out that I have also met with a number of Chinese students and also Chinese business people from the United States, some who are Chinese nationalists living in this country and also some who are Chinese-Americans. And I find that the positions that they are taking are somewhat mixed. I would say, frankly, a majority of them probably favor extending the most-favored-nation status with some conditions attached to it, and with obviously great oversight by the U.S. Congress. Obviously, what went on in Tiananmen Square is unacceptable behavior in terms of what our standards are. At the same time, many of the people I have talked to have indicated that they feel that by continuing trade it might encourage a more positive atmosphere and perhaps lead to some lessening of the repression there.

Chairman **Gibbons**. Thank you, sir.

Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman. I would like to thank our colleagues also. I will not disappoint the chairman. I would like to——

Chairman **Gibbons**. You all are seeing my power at its greatest right now. It never happened like this before. I didn't think I ever had them this well trained. [Laughter.]

Mr. **Pease**. Well, Mr. Chairman, I would like to mention a couple of things. First of all, this is a very serious matter. It certainly is an open question about whether MFN should be extended at all to China. As our witnesses have said, there are significant barriers in the way of denying MFN for this year, given the uncertainties of the *Chadda* decision and the likelihood that we would have to pass legislation through the House and the Senate and get it signed by the President and probably try to override a veto in order to stop a renewal of MFN for this year.

I recognized that at the time the President extended MFN for China, so I drafted a bill and introduced it, along with 13 of my colleagues, including six or seven members of this committee—Mike Andrews, Beryl Anthony, Brian Donnelly, Ben Cardin, Jim Moody, and Pete Stark—which would not deal with this year but which would make next year's extension of MFN trading status for China conditional on the Chinese Government halting its repression of the Chinese people.

My legislation would specify, as Ms. Pelosi has suggested, certain specific steps that we would expect the Chinese to take before there were extension of MFN for another year. I view my legislation as a middle course between trying to stop it altogether this year and doing as Mr. Frank suggested—that is, making some relatively harmless and meaningless statements about decrying human rights violations while at the same time extending MFN.

So I am looking forward to the discussion of the next few days. I hope that perhaps we can find some expression on the part of Congress to indicate our distinct unhappiness with the human rights situation in China.

Someone—I believe Mr. Frank—suggested that China may be too large not to get MFN, that it is a test of our commitment to human rights as to what we do with the big nations, not with the small nations. I am struck by the similarity between that and the statements that were made recently for Continental Bank; that is, the big banks that go bad are too big to fail. That is a position that distinctly does not get any enthusiasm from the American people. Perhaps we ought to say the same thing for large countries as well.

Thank you, Mr. Chairman.

Chairman GIBBONS. Yes, Mr. Pease.

Mr. Downey.

Mr. DOWNEY. Thank you, Mr. Chairman. I also want to thank our panelists and, if I may break with the new tradition, ask them one or two questions.

We will have some testimony from some eminent Americans—Steven McCoy, who is the president of the North American Export Grain Association next, and Roger Sullivan—and I would like you to respond, if you would, to what they are going to tell us since you will probably not be around to respond afterward.

Mr. McCoy says that,

> We should seek to avoid the mistakes of the past. MFN status for the People's Republic of China should not be used as a tool to achieve U.S. foreign policy objectives.

That is one point he makes. He makes another point:

> Advocates of the denial of People's Republic of China MFN status should be disabused of the notion that this sanction is a risk-free, cost-free action without penalty to the United States. The penalty to U.S. agriculture could be severe and long-lasting. Indeed, denial of MFN may be tantamount to imposition of a unilateral U.S. grain embargo against the People's Republic of China, if, as expected, the People's Republic of China retaliates through the suspension of its imports of U.S. farm commodities and products.

Mr. Sullivan says much the same. He asks the question,

> Who will be hurt? Had we asked ourselves this question in 1980 after the Soviet Union invaded Afghanistan, we would never have imposed the grain embargo, a quixotic gesture which damaged only our farmers.

And he goes on to say,

> If we revoke China's MFN status, we must also assume Chinese retaliation.

I think one of the other points that Mr. McCoy makes which I want to read in full is addressed to the point that Ms. Pelosi made.

> Denial of MFN would not result in a modification of People's Republic of China Government policy. Indeed, the adverse economic impact of that action would be felt greatest by those elements of the People's Republic of China population least capable of bearing the brunt of the interruption in trade. These elements are, not by accident, the very elements within the People's Republic of China economy who have been most instrumental in advancing the goals of liberalization and democratization which we in the United States have so strongly supported. It would be a mistake to turn our back on them, the Chinese people in general, at this significant juncture in our evolving relationship with the People's Republic of China.

Mr. SCHULZE. I would be happy to start, just very briefly, and try to answer you briefly and succinctly. First of all, let me say that we are not talking about embargoes. We are talking about moving from column 1 to column 2, a slight variation in tariff schedules. This is not the end of the world. It is not a big deal. It has been done for years.

Let me also say you are going to hear the same questions asked that were asked of this committee when we discussed the limitation or the elimination of most-favored-nation status for Romania. And if there is one member of this committee who in retrospect would not have voted to eliminate MFN for Romania, I would like to know who you are. I think in light of what has happened and what is happening in Romania today, we did not do anybody any favors by continuing MFN for Romania. And I would be happy, if you want to get into a debate on that. But, Tom, the same questions were asked at that time. Who do we hurt and why do we hurt them and why do we do it? And it was right to have stopped MFN for Romania. We would have stopped a lot of pain and suffering, and it would have stood up as a symbol of what we believe as a Nation is right. I think we should do the same thing.

Mr. DOWNEY. Well, Dick, I would stipulate to the fact that you were one of the few correct voices on the question of Romania and MFN, and you are wise to remind us. Let me just point out, as Mr. Sullivan will tell us, that the removal of MFN would increase the rate of duty on the top 25 dutiable imports from China from an average of 8.76 to what he considers to be a prohibitive 50.49. So there is a substantial increase in the duty, but I don't think that in any way——

Mr. SCHULZE. Of course, we are talking about relatively inexpensive products, and so an increase on duty, even if it is 20 or 30 percent, when you are talking about an item that costs less than $1, is not a substantial increase in duty.

Mr. FRANK. A couple points, Mr. Downey, and I realize I am responding to excerpts from the testimony. One of the questions you relayed to us was why should we use MFN as an instrument of policy. The answer is we are the Congress of the United States. We are not a commercial entity. We are making American policy. And it is my understanding that the statute itself, in fact, calls for that. So maybe people want to reform the statute. But I don't think it is inappropriate for the Congress of the United States to take into account policy interests when passing a statute.

Second, the notion that this is a unilateral embargo because it might lead to reciprocal, et cetera, et cetera, that is refuted—the notion that this is the same as an embargo is refuted by the example that you gave from the person you were quoting about Russia. What he said was this would be as bad as imposing an embargo on Russia in 1980 or the same thing. In fact, this is not an embargo, and let me just make the point. Russia didn't have MFN at the time. If not giving someone most-favored-nation status is the functional equivalent of embargoing them, then the Russian embargo was a nullity because they didn't have most-favored-nation status. In fact, that example refutes itself. It is clear that in the case of the Soviet Union they were buying our wheat without most favored nation.

The next point I would make is that this deal we have with China helps some farmers. On the whole, however, from the standpoint of the United States, we have a negative balance with them. We have a deficit. They sell us much more than they buy. So on all counts, I must say I am unpersuaded. There is no public policy that is going to make everybody perfectly happy all the time.

It is not an embargo, however, and I just want to stress that one again. The notion that this is the same as embargoing the Russians, I just want to come back to it. The Russians didn't have most favored nation. How can a denial to China of most favored nation be the same thing as saying to the Russians, who never had most favored nation, you can't buy our grain. They are just very different situations.

What I guess we are being told is, they say don't make it an element of policy. That is a position that says human rights foreign policy should have nothing to do with it, that the only factor we should take into account is a straight commercial deal. Well, I do think you go back as well, the repression, the movement away from market economy is not unrelated to the terms of the competition. But I am not prepared to accept that.

And the last point was—and Mr. Schulze hit that—these things are bad—maybe we should have a generic sentence which the committee could just have the recorders ready to put in. Do not impose any economic sanctions on the country of X because it will hurt the very people you are trying to help, and it will not change the policy of South Africa, Nicaragua, Cuba. That is an argument that fits in everywhere. We are always told don't impose the sanctions on these people. In the short term, no one says, oh, you've sanctioned me, I give up. Over the longer term, I think they very often have a beneficial effect.

Ms. Pelosi. Mr. Downey.

Mr. Downey. Ms. Pelosi.

Ms. Pelosi. At the risk of being duplicative of my colleagues, I will try not to be but I may. Mr. Sullivan and Mr. McCoy are very good spokespersons for their point of view, and they do their jobs very well. They represent trade associations. And if our policy is strictly a mercantilist policy, then I think that their suggestion should be followed by this Congress. But if we make any pretense at being supporters of principle and human rights across the world, then we have to make some statements about it. So if, in fact, we don't want to have human rights or emigration policy or any notions about a centralized economy, and the freedom that is implied in that, to be part of our policy, then why don't we just say so. But we shouldn't pretend that our policy is based on any principle.

You will also hear from some of the witnesses about how this is going to hurt Hong Kong. What we are hoping to do with not extending most favored nation and sending a statement to the hierarchy in Beijing, is to be a force for democratic reform in China, is to support those—not to support a government that is repressive. What is more in the interest of Hong Kong than a democratic regime in Beijing come 1997?

All I see from the business interests coming in is the short view. What is it for next year? And I believe that if, in fact, that is what we are going to do, we should take Mr. Frank's lead and say let's change the law because what happened in Tiananmen Square makes no difference to us, that our policy is strictly based on trade, and not very well at that because, as Mr. Frank has pointed out, we have a $6 billion trade deficit to China. And, believe me, believe me, that is just the start. If anybody thinks we are going to be making that up, I think they are not looking into the China situation clearly enough.

I would like to make another point which hasn't been made, and that is about proliferation of weapons. Earlier testimony alluded to the fact that it is difficult to find a big enough enemy these days. Well, one of the enemies to our security may not be an individual country, but the proliferation of nuclear weapons. And China is, as you know, an active participant in this. We just read of a $150 million sale or thereabouts to Egypt the other day—for what purpose, I don't know—and that Israel was in turn selling weapons to China. At some point, we have to make a statement about the behavior of this regime. What is in our national interest in the long term? I don't think anybody can deny that that is a democratic regime in China, and that if we can make a statement of displeasure and disapproval of this regime by withholding most favored nation, then we will be going in the direction of democracy.

Let's not delude ourselves. We have not adequately responded to Tiananmen Square yet. So we shouldn't delude ourselves into thinking that we have. The President took every opportunity he could to weaken the sanctions that Congress passed. He vetoed the student bill. We didn't override it. The high-level representatives were sent to Beijing. We haven't as a country made an adequate statement. And when one of the leaders in Beijing was asked by Barbara Walters, "What do you think of the world's reaction to Tiananmen Square," he said, "Much ado about nothing." I don't think it was nothing. I don't think it was as much ado as we could have come up with in this country.

So with all respect to Mr. McCoy and Mr. Sullivan, they are doing their job. We have to do ours and stand up for principle.

Thank you, Mr. Chairman.

Mr. FRANK. Mr. Chairman, I just would like to excuse myself. I have the Judiciary Committee meeting on the constitutional amendment. I would rather stay, but I think I have to go.

Chairman GIBBONS. Make sure you wave the flag. [Laughter.]

Mr. DOWNEY. Mr. Chairman, I have no further questions. I want to thank our colleagues for their answers. I found them particularly helpful.

Chairman GIBBONS. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman. I would like to associate myself with the comments of my colleague, Mr. Pease. After having studied his proposal, I signed on as a cosponsor. It is a middle ground approach. I have heard your responses to the questions. I have read your testimony. Mr. Schulze is probably on record the longest, probably 10 years, as recommending a phasein. He strongly disagreed with his President, who was forced into an all-or-nothing decision. Now we are struggling with whether or not to accept an all-or-nothing approach or to try to find a middle ground.

I would ask the witnesses to take a look at Mr. Pease's proposal and see if it would be the type of compromise that could work us through this particular situation.

I would like to make one comment, and I am sure this will be brought up later, and that is whether or not to call it an embargo or to call it moving trade from column A to column B. All I can tell you is that the farmers who grow the wheat and the products and are asking that it be sold in foreign trade care less if it goes from column 1 to column 2, or whether or not it is called an embargo. All they care about is whether or not they are able to sell it off of their farm, either as a domestic or an international sale. I think that this is something we have to take into consideration as to whether or not there would be any retaliation. Innocent producers of farm commodities in the United States should not be punished for a public policy that we would be fostering out of this committee.

If you would like to make any comment, I would be happy to entertain it. But other than that, Mr. Chairman, I would yield back the balance of my time.

Mr. SCHULZE. Just very briefly, Mr. Anthony. The move from column 1 to column 2 is on exports only, of course, not imports. And as you correctly stated, it would have to be a matter of retaliation if there were some kind of a boycott of American farm goods.

I doubt that that would happen, in looking around the world and the sources of the type of grain and wheat and agricultural products which we develop and sell. But let me also add as a footnote that China is now beginning to export agricultural products for the first time. And if we think that our sales of agricultural products will continue for the next decade or more around the world, we are mistaken. We are going to have to watch very carefully the exports of agricultural products from China because they soon will be in competition with our exports.

Ms. PELOSI. Mr. Anthony, I would like to respond to the first part of your question about the statement about Mr. Pease. I think that Mr. Pease exercised leadership in putting forth his proposal, and I believe he will have a good deal of support in the Congress. As I mentioned—I am not sure whether you were here—we have a letter circulating that we should not extend MFN unless certain conditions are established. So what I would say about Mr. Pease's proposal is that if we do move with a proposal of that kind, with extension of MFN with certain conditions that he spells out in the legislation, that we should not do so unless we fully intend to live up to it by next year. If those conditions are not met, we have to be fully prepared not to extend most favored nation next year.

I think it is a good piece of work. I commend him for his leadership in putting it together. But we have to be serious about it, or else we will lose our credibility on this issue even further.

Thank you, Mr. Chairman.

Mr. ANTHONY. I thank my colleagues for their testimony. I yield back the balance of my time.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman. And I thank each of you. I suppose that nobody could believe more deeply in human rights than I do, and I can never forget the brutal crackdown on democracy that happened in Tiananmen Square in China. And I believe that things aren't going to change with the present leadership we have in China. It will probably take new, younger blood, as happened in Russia with Gorbachev, a new generation of leadership in China before we start seeing some positive results.

Nonetheless, having said that, I am a little disturbed about our closing our doors where we are the third largest trading partner that China has, which is $18 billion worth of trade. Now, if all the other countries of the world, the Western allies, had marched in locked step and had done what we are proposing to do, then China would, in fact, be isolated. But that $18 billion in two-way trade would only go to other countries who would pick up the slack.

There is no other Western country except the United States that is proposing to take this position about MFN. Therefore, it will slow down our trade with China. It will close our doors. There are billions of dollars worth of trade, which means tens of thousands of jobs that would be lost in this country, and we are not getting the support from our other allies.

Now, they say they will help us in regard to loans with the financial institutions. And about weapons, we get some lip service from them. But we don't get the same position of MFN. So, therefore, what we are doing is giving up something that they are not willing to give up, at the same time picking up the trade that we would otherwise be losing, and closing our doors because we insist on using trade as a part of a State Department tool to force other countries to give due process of law which we deeply believe in.

I guess the bottom line of my statement is that if the world acted in concert and we didn't lose tens of thousands of jobs, perhaps our argument would be stronger. I know on an idealistic level we are absolutely right in demanding human rights, but the realities of the fact are that human rights won't exist until there is new leadership in China. That is very, very clear.

Are we, by using trade as a foreign policy, overusing this tool and spending our economic capital? We are still trading with China. All we are doing in slowing down our trade. So if it is a matter of principle, why not cut off trade completely if we feel that deeply about it? Why don't we give MFN to Iran, Iraq, and to South Africa? There is no bigger human rights violation than in South Africa. Mandela is coming to Washington shortly—this coming Monday, I believe—to meet with the President. They still have MFN. So it really seems inconsistent.

Then you mention something that it is working as a political tool. Well, the countries that we had extensive trade arrangements with, the Communist bloc countries—Hungary, Poland, and East Germany—they opened their doors to democracy because they had seen the light, and we didn't cut off trade with them even though they were Communist countries. But the countries that we didn't trade with—Albania and Bulgaria—were the last ones to return to democracy. We isolated those countries, and they have had less of a reason to become democratic.

Therefore, the hypothesis that you have has to be questioned in view of world events, and I would like you to comment on that, please.

Mr. **Schulze**. I would be happy to briefly comment on the query of my most distinguished colleague. And I am pleased to do so.

First of all, the last portion, when you talked about Albania and Bulgaria. I could tell the gentleman that when Charlie Vanik was chairman of this Trade Subcommittee, we went to Bulgaria. We discussed with the then Communist leadership, hardline leadership of Bulgaria, the opportunities for expanding trade with Bulgaria, between Bulgaria and the United States of America.

Those blandishments were rejected out of hand. As a matter of fact, they were rejected fairly bluntly to Chairman Vanik.

So, when you say that we did not have a good trade relationship, I can assure the gentleman from New Jersey that it was not because the Trade Subcommittee did not extend that palm of friendship, that hand of friendship, that olive branch, to try to develop that kind of relationship.

Mr. **Guarini**. No. I think my colleague misses my mark. The point is that the countries that were isolated, like Bulgaria and Albania, were the ones that were the last to return to democracy, even though there are human rights violations in other Communist countries.

Mr. **Schulze**. But the human rights violations were probably more glaring there than anywhere else.

Mr. **Guarini**. But it's still the same principle.

Mr. **Schulze**. Their emigration policies—see, emigration policies are a reflection of human rights. Whether we like it or not, it is a mirror. Maybe it is one test. But it says if you are strong enough internally that you say to your people "You are allowed to come and go as you wish, because we are going to provide an atmosphere in which you can live in relative freedom and have the opportunity to take care of yourself and your children and your family and proper and grow and learn. Then we know you are going to come back. We know that you are not going to line up at the gates and everybody rush out."

And so emigration policy is much more than just a few words in a Constitution or in a bill or a law that is passed. It is a very graphic demonstration of internal policies in a nation. And that is why this legislation that we are talking about—and I might add parenthetically—that the gentleman is free to put in a motion of disapproval, a resolution of disapproval on any of those nations which he named if he does not think they should receive a most-favored-nation status.

And I think, you know, if you really feel strongly and feel that their policies do not follow the law, that we should do that.

Now, one other final thing. I keep hearing this reference to sort of a boycott. This is not a boycott under any stretch of imagination. It is a slight increase in the tariff schedule. It does not say that your products cannot come in; it does not say that we are not going to sell you products. If they choose to sell them elsewhere, that is their prerogative.

Mr. GUARINI. But, my distinguished colleague, if you feel so strongly about human rights, why not have an embargo? Why have any trade at all?

You are just slowing down trade and hurting our jobs. If you stand on principle—take off trade altogether.

Mr. SCHULZE. Take the other extreme as well. And I know that perhaps the gentleman and others on the committee would like to eliminate Jackson-Vanik completely, and I know that——

Mr. GUARINI. Well, I have been in Russia, and I have been with the chairman of this committee and some members of this committee, and I stood in a room there with many other of the people who were the victims of repression, the "refuseniks." And I had heard from half the audience that Jackson-Vanik did not work and they thought it hurt them more than it helped them. That has been a debate that has been going on.

And we always turn the trade as State Department policy. I just question whether or not we should be on ourselves needlessly when other countries are not helping us.

Mr. SCHULZE. If you really want to get into a philosophical discussion, let me say this. I would rather be battling with trade with dollars and products than I would be with bullets.

I think that if we do this in minor ways, if we express our dissatisfaction in this arena, it will not grow and fester into a larger kind of a confrontation.

Mr. GUARINI. Well, economic policy opens doors, and we learned from Mr. Vanik, whom you quoted earlier, our subcommittee chairman before Mr. Gibbons, the present chairman, that trade is the currency of peace. Our boys believe that it keeps doors open, it keeps us talking; it gives us dialog and promotes democracy in the long run.

Thank you.

Mr. SCHULZE. I thank the gentleman.

Ms. PELOSI. Mr. Guarini, I would like to comment on your statement.

First of all, you started off by saying you don't want to close the door on China. I do not think anybody who comes before this hearing will want to do that, whether it is the Chinese students or whether it is those of us who are not in favor of extension of most favored nation just flat out.

As far as I am concerned, my district is a Pacific Rim district in San Francisco. We look forward to a brilliant future with China culturally, economically and, hopefully, one day politically. And trade will be the currency of peace, but we have to proceed on our own terms.

In order to understand where the gentleman is coming from, may I ask, do you think human rights has any role in our trade policy at all?

Mr. **Guarini**. Human rights has a role. Whether or not it is a sole role, the world is much more complex. And I do believe it is part of an equation.

But there are a billion people who live in China. It is one of the biggest markets we, as a great trading nation, can tap into. To just close our eyes, disregard it and single it out where there is repression going on in many other countries, is hypocrisy.

Ms. **Pelosi**. Well, then, in other words, the size—perhaps it was before you came in the room, we had a discussion about size and principle.

But, in any case, the idea—perhaps we should, as has been said in earlier testimony, eliminate all the illusions that we may have about our relationships with other countries; that they are based on principle, and just have a mercantilist attitude.

Because you asked why do we have to worry about this. We do because, at the present time, we have a law. And that law says something about emigration and the freedom of residence if you live in a centralized economy, a nonmarket economy.

If, in fact, that should not be the case, then maybe what we should be discussing here today is stripping any illusions of concern for human rights from our policy. And that may not be a bad thing to do.

I agree with the gentleman on one point. Other countries are not moving to change their most-favored-nation status with China. For this reason, we have urged the administration not to weaken its position on World Bank loans and other multilateral development loans to China. In return for our pleadings with the administration, they gave to China—voted in favor—at the end of May, they gave a 1-year anniversary to the hierarchy in Beijing by granting a $300 million loan for forestry.

Our sanctions in Congress said no loans except for basic human needs. I guess you could stretch the loophole large enough to say that forestry is a basic human need.

But one further point is that if other countries are going to follow our lead, and you mentioned South Africa—we did have a strong economic sanctions package in place while we had MFN. So we had made a statement about what is going on in South Africa. We have yet to make the statement about what is going on in China. Maybe if we had made it with World Bank loans; maybe if we had made it with increasing funding for Voice of America; maybe if we had made it in other areas, a most-favored-nation decision wouldn't loom so large.

But the fact is that the debate should also, I think, weigh with democracy in China as a value. When democracy comes to China, and I hope that it will be soon, it will lessen the threat to our own children and their future.

So we have a big stake in China. And if extending most favored nation strengthens the regime in Beijing, then I believe we have a responsibility to look at that extension very carefully and not proceed with it unless we do under the guidance of a plan such as Mr.

Pease has set forward—but not to even do that unless we intend to live up to it.

If we don't intend to do that, then we should go along your path. And I am not criticizing, I am just saying it is an honest path, that human rights are not as important as some would be led to think when we make our pronouncements about what we stand for as a country which promotes democracy throughout the world.

Mr. GUARINI. Well, let me finally say that I don't think anything we do here is going to change the thought process of the aged leadership in China. It is not going to change them one way or the other. It is going to take a new generation of leaders they start off saying.

But we should put some of our efforts and our energies into convincing our allies and the G-7. Instead of putting all our energy and directing our guns at China, take a look at our allies and pressure them and use our muscle with them to get them to agree with us into working concert instead of our going alone.

Ms. PELOSI. Perhaps the gentleman would like to sign the letter which we are circulating from the Congressional Working Group on China to the President in preparation for the G-7 meeting in Texas in the next few weeks, which makes that statement very clearly about leadership and our working relationship with the G-7 as regards our policy and their policy with China. I would be happy to bring it by your office.

Mr. GUARINI. I am absolutely in accord. I think that that is the way to go; the President should put pressure on our allies, and then work together toward world peace and human rights.

Thank you.

Ms. PELOSI. Thank you.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. I simply want to congratulate my colleagues for their testimony. I confess to ambivalence. In many respects, I wish MFN had never existed with regard to mainland China. On the other hand, as the chairman, the Washington chairman of the Friends of the Hong Kong People, I have a profound concern about the economic ties that exist currently between the Hong Kong and at least the southern part of mainland China.

And I think that there are beneficial aspects to that. And I am concerned as to what the status of Hong Kong will be after that transition in 1997.

And so I am keeping an open mind. I am happy to hear the testimony. I certainly could respond to Mr. Schulze's comments about extending MFN to Romania because I had tried unsuccessfully for several years to cut that off before Ceausescu finally did it himself.

But as I say, this is a profound debate that has more complicated implications I think than most of the instances in which we extended this favorable trade treatment to other partners. And I think we should proceed delicately, and I am frankly at the present moment quite sympathetic with Mr. Pease's approach; that perhaps go along with it for 1 more year but with the understanding that this is perhaps the last time we will look favorably unless there are some positive changes.

And I thank my colleagues for their very eloquent testimony.

Chairman **Gibbons**. I want to thank both of you, and Mr. Frank also who has had to depart, for your stimulating testimony.

And, Ms. Pelosi, I want to thank you and commend you for your very effective leadership and initiative in this whole issue.

Ms. **Pelosi**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Schulze, we welcome you back up here with us.

Mr. **Schulze**. Thank you, Mr. Chairman. [Laughter.]

Chairman **Gibbons**. Mr. Solomon has submitted a statement which, without objection, will be made a part of the record.

[The statement of Mr. Solomon follows:]

# STATEMENT

BY

REPRESENTATIVE GERALD B. SOLOMON

Committee on Ways and Means,

Subcommittee on Trade

June 19, 1990

Mr. Chairman and Members,

I appreciate very much the opportunity to testify before you. I do regret, however, the circumstances that make this hearing necessary. The ongoing repression in mainland China --- the so-called People's Republic --- is of great concern to the American people and their elected Representatives.

I have come to the conclusion, Mr. Chairman, that Most-Favored-Nation trade status for the PRC should be withdrawn. Accordingly, in May I joined with Representatives Schulze, Markey, and Rose to introduce H.R. 4866, a bill which would terminate MFN status for China.

Following President Bush's recommendation that MFN should be extended for another year, I joined with the same Representatives to introduce a resolution of disapproval, H.J. Res. 586.

Mr. Chairman, this is not a conclusion that I have reached easily. The imposition of economic sanctions on a foreign country is a serious issue.

I have always been concerned that we not end up hurting the very people we are ostensibly trying to help. And so it has always been my position that our government should impose sanctions only as a last resort.

In my view, the situation in China has reached such an impasse that withdrawal of MFN is justified. The massacre in Tiananmen Square was bad enough. But the leadership in Beijing has chosen to amplify the horrors of last June by engaging in a systematic pattern of repression and vilification.

After years of being ignored or excused, China's human rights record is now in the public domain. This wretched spectacle has been thoroughly documented by our own State Department, Amnesty International, and other authoritative monitoring groups.

Purges, detentions, show trials, executions --- these have been standard fare in the PRC for many years. But it took the violent suppression of the pro-democracy movement during this past year to make these abuses more visible. There is no longer room for any doubt or debate about the true nature of the Beijing regime.

## China's Record Since Last June

**Let's look at some of the other actions taken by the PRC since the Tiananmen Square massacre one year ago:**

***The Voice of America has been jammed repeatedly, and access to the country by foreign reporters has been restricted severely.**

***China has begun to renege on its promise of a "One China, Two Systems" formula for the management of Hong Kong. And, in its formal contacts with the British, China has taken an uncompromising tack as far as the political and economic freedoms of the people of Hong Kong are concerned.**

*Political indoctrination, including a return to unvarnished Maoism, has been reinstated throughout China, particularly in the universities.

*Chinese students are now required to work 5 years before being eligible to travel abroad. Once the work requirement has been met, they must then get a certification of political reliability from the local Communist Party apparatus.

*The role of the army in Chinese society has been intensified. And the internal security force, known as the People's Armed Police, has been brought under the direct supervision of the army.

*The president of China's most prestigious law school has been summarily fired. And the agricultural research institute that spearheaded China's agricultural reforms over the past decade has been closed down.

*Only last week, prominent liberals holding high-ranking positions in the government ministries dealing with culture and the news media were removed.

I need not go further, Mr. Chairman. The pattern of repression is clear. The pattern of China's external activities is also clear, including the continuation of missile sales to the Middle East and the acceleration of arms deliveries to the Khmer Rouge in Cambodia --- in direct contradiction to solemn assurances given to our government.

I would note that America-bashing made a return to the Chinese scene even before the bullets flew in Tiananmen Square. An officially-sanctioned counter demonstration several days before the massacre featured a man in an Uncle Sam costume throwing money at several people posing as students.

## Why MFN?

So the question occurs: Is this the kind of government that deserves MFN status? The question becomes even more pointed because MFN is the essential component that provided China with a $6 billion trade surplus against the United States last year alone.

Should the United States be, in effect, subsidizing a doomed regime that tramples of American values and interests, all the while holding out the tin cup? I don't think so.

There is a profound contradiction between wanting aid, trade, and investment from the United States on the one hand, while, on the other hand, continuing to castigate the United States and closing off the Chinese people from American influence.

Before closing, Mr. Chairman, I would like to return to my original point: That I take very seriously the possibility that sanctions could hurt the very people they are trying to help.

I would argue, however, in this present instance that the Chinese economy is facing a bleak future, with or without MFN status. Indeed, even before the Tiananmen Square massacre, the forward momentum in China's economic reform efforts had run out of steam --- and had even gone into reverse.

In October and November of 1988, the regime in Beijing took several major steps to reinforce price controls, to reaffirm the primacy of central planning, and to toherwise tighten state control over the Chinese economy. This is not an economic reform program, I can assure you.

The impact of these steps, coupled with a general downturn in economic confidence since last June, is already being reflected in the statistics that measure the performance of the Chinese economy. Unless these policies are reversed soon, the economic consequences will be debilitating.

But, in the final analysis, the real crisis facing the Chinese leadership today is a crisis of political legitimacy. The ruling clique in Beijing has lost the mandate of heaven. And there will be very little prospect for an improvement in China's economy until the present regime either reforms,. retires, or expires.

America, in my view, should not be a party to propping up this unacceptable status quo in Beijing. To do so will, in the long run, be even more detrimental to the Chinese people than will be a withdrawal of MFN status.

MFN status can always be reinstated when conditions warrant. Rebuilding the lives that have been shattered by this power-mad regime will take a lot longer. And, of course, many thousands of lives have been lost altogether.

Our government needs to convey to the leadership in Beijing that American patience is not umlimited --- and that our commitment to human rights is not compromised. This is the message that should have been brought by the Scowcroft/Eagleburger mission last fall.

Mr. Chairman, I appreciate the opportunity to testify today. I recognize that other Members will be offering proposals to make MFN status conditional.

And I realize that other related issues, such as Taiwan's membership application to join the General Agreement of Tariffs and Trade, as well as a free trade agreement other arrangements to help Hong Kong, will be under consideration by the Ways and Means Committee in the near future.

I am ready and willing to join with you and all interested Members is working out a package of actions that will serve America's interests.

Thank you.

Chairman GIBBONS. Let us go to our next set of witnesses now. North American Export Grain Association, Mr. McCoy; the United States-China Business Council, Mr. Sullivan; the American Chamber of Commerce in Hong Kong, Mr. Kamm. By the way, Mr. Kamm flew here from Hong Kong specifically for this testimony. The Emergency Committee for American Trade, Mr. Hanson; and the American Association of Exporters and Importers, Mr. Cuza.

Mr. McCoy, you are the first, so please just go right ahead.

## STATEMENT OF STEVEN A. McCOY, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Mr. McCoy. Mr. Chairman, thank you very much. I am happy for the opportunity to appear before the committee.

I have got to confess I think that the testimony has already been very ably introduced into debate here, and I will attempt to sketch——

Chairman GIBBONS. That doesn't stop you from going ahead and speaking your piece. You go right ahead.

Mr. McCoy. No. I would be happy to engage in that dialog.

I will summarize my statement briefly and perhaps get into some of the issues that were raised previously.

Chairman GIBBONS. As you know, Mr. McCoy, all statements are going to appear in the record. Go right ahead.

Mr. McCoy. Thank you, Mr. Chairman.

I would also like to, Mr. Chairman, if you could introduce into the record an article that appeared in today's Journal of Commerce entitled "China Grain Imports Likely to Continue at Brisk Pace," which is an indication of the problems that the Chinese Government are having in terms of domestic agricultural production.

Chairman GIBBONS. Without objection, we will accept that.

Mr. McCoy. Thank you, sir.

The North American Export Grain Association is pleased to join here with the other voices who have come together today to express support for most-favored-nation trade status to the Soviet Union.

My association represents U.S. grain exporting companies and cooperatives.

Few issues that the Congress will address this year will have as immediate and direct an impact on U.S. agriculture as the issue that the committee has before it today. The People's Republic of China represents this country's current leading market for wheat, with sales in excess of $1 billion in 1989, nearly 20 percent of all U.S. wheat exported last year. In addition, total U.S. agricultural exports totaled wheat, cotton, corn, forestry and tobacco products amounted to $1.5 billion in 1989 and related exports of fertilize and paper for an additional $575 million. So, as you can see, this is a matter of tremendous immediate importance to U.S. agriculture.

These agricultural exports have traditionally been among the leading trade categories in our trade with the Soviet Union. And it is our view that these exports would be imperiled and could be lost altogether if MFN status is denied to the People's Republic of China.

Again, it is our contention that People's Republic of China retaliation in the event of a denial of MFN status should not be considered a matter in doubt. A retaliation against U.S. exports will almost certainly and immediately follow denial of MFN status.

Past People's Republic of China retaliation against the United States in major bilateral trade disputes in the mideighties and the midseventies, have been directed against U.S. farm exports. As previously indicated, U.S. farm exports comprise the current largest single category in our trade with the People's Republic of China. So, consequently, these sales present the most substantial and likely target of retaliation by the People's Republic of China in response to any action which the United States might take to disadvantage or damage People's Republic of China commerce in the U.S. market.

The committee should understand, and the members who are trying to grapple with agriculture's concerns of this matter should understand that the People's Republic of China market represents one of American agriculture's best future long-term growth potential markets in the world. The People's Republic of China share of the world's gross national product has grown rapidly in recent years. Its share of world population, total world population alone, makes it a matter of vital concern for U.S. agriculture.

The dual impact of rising income and population in the People's Republic of China has a potential to substantially fuel demand for U.S. agricultural commodities and products well into the next century, which is a matter, I think, that is well addressed in the article today.

The U.S. share of this growing market would be arrested and could be extinguished altogether is normal bilateral trade is disrupted by denial of MFN status. The result of denial of MFN status would be to offer up this agricultural market, this prime agricultural market to our trade competition internationally, namely the European Community countries, Australia, Canada, Argentina, and any other agricultural exporting nation.

Now, advocates of denial of MFN have to understand that from the position of U.S. agriculture that this is not a risk-free, cost-free action. We expect serious penalties and, indeed, we do believe that denial of MFN status would be tantamount to the imposition of de facto of grain embargo against U.S. exports. This is not a matter of faith on our part, it is a matter of practical experience.

We have gone through this scenario with the Chinese before. The Chinese are very sensitive about the interference in their domestic affairs. You see it in the reactions of the Chinese Government. They have no problems with taking retaliation in the form of trade.

So, whether for ill or for good, it is a matter that the committee is going to have to consider in coming to terms with decisions regarding this issue.

To understand the emotional aspect of this thing, I think again the members of the committee have to understand that agriculture has a bitter memory and legacy as far as grain embargoes go. And as Mr. Anthony said, this is a matter that is in grain, and people operating in agriculture in the Farm Belt, in industries affected by agriculture.

The agricultural industry of the United States has to compete internationally in order to survive. Consequently, any action taken by Government, or by anyone else, that would threaten our ability to compete in international markets is a threat to the survival of U.S. agriculture. And again this is one of the facts that we have to deal with in terms of this debate, whether for good or ill.

Now, in concluding here, just briefly to touch on the issue of whether or not MFN status should be used as a tool to achieve foreign policy, we believe that it shouldn't. We believe that the commercial interests of the United States and the greater interests of the United States should work together to the greater benefit of both.

We have a national commitment here to expand the U.S. participation in international trade, to achieve the benefits of international trade. This committee has been very actively involve in the process of GATT reform that is tending in that direction. It is debated in most-favored-nation status for the Soviet Union, again on the issue in this area.

So, certainly human rights are important considerations in any policy of the United States, and the United States has a great record and legacy in that area.

But it is important also that the committee recognize that it has a responsibility to maintain the viability of U.S. commerce in the international arena.

Thank you, Mr. Chairman.

[The prepared statement and article referred to follow:]

## PREPARED STATEMENT OF STEVEN A. MCCOY
PRESIDENT
NORTH AMERICAN EXPORT GRAIN ASSOCIATION

before the

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

June 19, 1990

### INTRODUCTION

The North American Export Grain Association (NAEGA) takes this opportunity to join U.S. agriculture's voice together with the many other interests represented here today in strong support of renewal of most favored nation (MFN) trade status for the People's Republic of China (PRC). NAEGA is the national association of U.S. grain and oilseed exporting companies and cooperatives.

Few issues that the Congress will address this year will have as immediate and direct an impact on U.S. agriculture as the issue before the Committee today. The PRC represents this country's leading current market for wheat, with sales in excess of $1 billion in 1989, nearly 20% of all U.S. wheat exported last year. Total U.S. agricultural commodity and product sales to the PRC in 1989 exceeded $1.5 billion, including exports of wheat, cotton, corn and forestry and tobacco products. Agriculture-related exports of fertilizer and paper accounted for an additional $575 million in sales.

Sales of these agricultural and related commodities and products have traditionally been among the largest trade categories in our bilateral trade with the PRC and accounted for 37% of all U.S. exports to the PRC in 1989. These exports would be imperilled -- and could be lost altogether -- if MFN status is denied the PRC.

### PRC RETALIATION AGAINST U.S. FARM EXPORTS LIKELY

PRC retaliation in the event of denial of MFN status should not be considered a matter in doubt. Retaliation against U.S. exports will almost certainly and immediately follow denial of MFN status. The only question, therefore, is the nature and severity of the retaliation; and against whom in the United States the retaliation will be directed.

Past PRC retaliation against the U.S. in major bilateral trade disputes has historically (and disproportionately) been directed against U.S. farm exports. As previously indicated, U.S. agricultural sales to the PRC currently are among our Nation's leading exports to that country. Consequently, such sales present the most substantial and likely target for retaliation in response to unilateral U.S. government action designed to disadvantage or damage PRC commerce in the U.S. market.

### U.S. AGRICULTURE HAS LONG-TERM STAKE IN PRC MARKET

The PRC market represents one of American agriculture's best future long-term growth potential markets. The PRC's share of world gross national product (GNP) has grown rapidly in recent years. Its share of total world population (21% in 1988) alone makes its long-term future a vital concern to U.S. agriculture.

The dual impact of rising income and population has the potential to substantially fuel PRC demand for U.S. agricultural commodities and products well into the next century. Basic commodity production in the PRC (including wheat, corn, millet, potatoes and soybeans) has levelled off at approximately 380 to 390 million metric tons (MMT) during the decade of the 1980s. At the same time, demand for basic food and feedstuffs has grown dramatically.

The U.S. share of this growing market would be arrested, and could be extinguished altogether, if normal bilateral trade is disrupted by denial of PRC MFN status. The result of denial of MFN status would be to offer up this market to our trade competition, particularly to European Community (EC) countries, Australia, Canada, Argentina, and other agricultural exporting nations.

U.S. agriculture has, over a decade of hard-won sacrifice in the direction of greater global competitiveness, earned a right to unrestricted access to the PRC market. Furthermore, the Chinese people themselves have a right to the rising standard of living their imports of U.S. agricultural commodities and products allow.

Denial of MFN status would be a betrayal of trust with our Nations' farmers and exporters and the Chinese people alike. It would not, in our view, serve in any fashion to modify the policies of the PRC government. Indeed, if history is judge, it may result in a hardening, and not a softening, of current PRC government attitudes.

## DENIAL OF PRC MFN A DE FACTO GRAIN EMBARGO

Advocates of denial of PRC MFN status should be disabused of the notion that this sanction is a risk-free, cost-free action without penalty to the United States. The penalty to U.S. agriculture could be severe and long-lasting. Indeed, denial of MFN may be tantamount to imposition of a unilateral U.S. grain embargo against the PRC if, as expected, the PRC retaliates through suspension of its imports of U.S. farm commodities and products.

U.S. agriculture's past bitter experience with grain embargoes imposed to achieve foreign policy objectives should be argument enough for avoidance of similar action with respect to PRC MFN. Unilateral trade sanctions rarely work. More often than not, they fail to achieve their intended objective at a cost of substantial hardship for affected domestic U.S. interests.

The 1980 grain embargo against the USSR resulted in a loss of perhaps $11 billion in value to the U.S. economy. It reduced U.S. export sales and lowered farm prices. It undermined confidence in the United States as a dependable supplier and encouraged the Soviets to seek alternate sources of supply from U.S. competitors in the international marketplace.

Denial of MFN status to the PRC, if followed by PRC agricultural import restrictions directed at the U.S., would have all the same serious ramifications for American agriculture. It would serve the interests of our trade competition. It would deny the U.S. the leverage provided by on-going amicable trade relations. It would undermine Chinese confidence in the United States as a reliable trading partner and diminish the U.S. role in the PRC market at the very moment that market presents the greatest possible future potential for U.S. agriculture.

## CONCLUSION

We should seek to avoid the mistakes of the past. MFN status for the PRC should not be used as a tool to achieve U.S. foreign policy objectives.

Denial of MFN would not result in a modification of PRC government policy. Indeed, the adverse economic impact of that action would be felt greatest by those elements of the PRC population least capable of bearing the brunt of the interruption in trade. These elements are, not by accident, the very elements within the PRC economy who have been most instrumental in advancing the goals of liberalization and democratization which we in the United States have so strongly supported. It would a mistake to turn our back on them -- and the Chinese people in general -- at this significant juncture in our evolving relationship with the PRC.

We have attempted in this testimony to express agriculture's many concerns regarding possible denial of MFN status to the PRC and the potential impact of such action on U.S. agriculture. The potential costs involved are great; the potential benefits questionable at best.

Congress should resist efforts to deny MFN status to the PRC. Trade should be held free of threat of sanction and our long-term relationship with China allowed to develop and grow, in the best interests of both our Nation and the Chinese people.

# China Grain Imports Likely To Continue at Brisk Pace

**By P.T. BANGSBERG**

Journal of Commerce Staff

HONG KONG — China intends to import even more grain as its population growth continues to outstrip domestic production and a series of optimistic forecasts of output.

Grain imports hit a high last year of 16.56 million metric tons, much of it from the United States. In 1988, the figure was 13.4 million tons after 6 million in 1985.

The expansion of imports is designed to permit a rise in domestic consumption, the state planning commission Monday.

Official figures show grain output last year was 407 million tons, up from 320 million in 1980 but still below expectations. In the same period, the population grew by about 15 million people a year.

Official figures show grain output last year was 407 million tons, up from 320 million in 1980 but in the same period, the population grew by about 15 million people a year.

In 1989, China produced an average of 366 kilograms (800 pounds) of grain for each person, 59 kilograms less than the world average, the commission reckons.

There are a number of factors behind China's regular disappointments over grain, which is a touchy political issue as well as a bedrock nutritional one.

Farmers switched to cash crops in the 1980s as part of the liberal economic reforms that allowed them more latitude. The state's purchase price for staples remains artificially low, and many payments took the form of IOUs, which farmers said proved worthless.

Compounding this, more than a million acres of arable land was lost to industry or soil erosion every year from 1986 to 1989, according to the state planning body. It forecasts that a further 30 million acres will be lost to industry during the next decade.

"As a result, the government has had to institutionalize grain imports as a supplement to state procurement," the commission said.

Late last month, the U.S. Department of Agriculture reported the sale of 399,360 tons, or just under 15 million bushels, of wheat to China at subsidized prices for delivery in July and August.

That was part of 2 million tons authorized May 2 under the Export Enhancement Program. At current prices, it was worth around US$240 million.

In January, China bought 300,000 tons for an estimated US$42 million, helping to maintain its position as the world's largest importer. It has purchased more than 15 million tons of subsidized U.S. wheat under the program over the last five years, the USDA says.

China says it sold 20 million tons of wheat to residents at state prices last year, but purchased only 16 million tons on contracts with farmers. The gap was met by imports.

Earlier this month, the government said an intensive campaign to raise output is paying off with good summer harvest expected in wheat, cotton and rapeseed. Liu Jiang, agriculture vice minister, said a record wheat harvest is likely.

That forecast is made every year and hasn't been met since 1984, when China produced 407 million tons for the first time. The target for this year is 412.5 million tons.

Production in the south is said to be very good so far this year, thanks to ideal weather conditions.

Northern farmers, on the other hand, have had to cope with aphid infestation, a widespread occurrence of wheat rust and powder mildew, and heavy rains that flattened an estimated 4 million acres, the agriculture ministry said.

The government is also promoting production of more crops and better livestock.

Chairman **Gibbons**. Mr. Roger Sullivan.

## STATEMENT OF ROGER W. SULLIVAN, PRESIDENT, UNITED STATES-CHINA BUSINESS COUNCIL

Mr. **Sullivan**. Thank you, Mr. Chairman.

I would just like to say before I begin that I was struck by the fact that we seem to be dividing the world into the principled and the mercantilists this morning. And I would just like to say that I find it peculiar that those who want to follow a self-defeating and impractical course somehow get considered to be principled, while those who question whether restricting trade would even work, or whether it would make matters worse, are dismissed as mercantilists.

I submit that this tells us more about the moral illiteracy of American society, and it tells us about the world of moral decision-making. But I would concede that this is a very difficult moral issue. I am not dismissing the human rights aspect of this at all.

I would not assert that sanctions never work. But I don't concede that sanctions always work. I think that you have to ask the question in each case, is it going to work, what is it going to cost, who is going to be hurt, and is it worth the cost?

I think we have detailed in our statement the rather considerable costs, the collateral damages. I called it this drastic step of moving China from column A to column B. I think anyone in business, anyone in agriculture can supplement what I said about the cost. And I know Mr. Kamm will go into great detail about the cost to Hong Kong.

We are not talking about a slight variation in the tariff schedule. We are talking about something very serious here. But the question is, is it worth it? And that depends on what our policy goal is.

I realize the frustration. I agree that we had not responded adequately to Tiananmen. And then that thing comes along as a convenient stick to use. But before we pick it up and use it, we have to ask is it worth it? If our aim is simply to express our outrage at what happened at Tiananmen, then I personally feel that it is not worth it, and I would hope that Congress would agree. I think probably most people would agree, when they think about it, that that's a terrible cost to pay just to stamp our foot and express our outrage.

But the most serious question is will it bring about change in China's policies, or bring about, perhaps, a change in the Chinese Government? That, I think, is the fundamental question. I say in my statement I think the burden of proof that it would have that effect really ought to rest on those who advocate again taking a step that would injure so many innocent people.

But, nevertheless, I think I would be prepared to say that I am quite confident that it would not have that effect. We have to consider a number of things here. One is the history of China. The Chinese sanctions may work against some countries. We have seen some countries where we think they would work. We had some mentioned this morning. In the case of China, the sanctions have never worked. We tried it in the fifties, and all we got was 25 years of hostility. And the Russians tried it with a much more severe sanction in the late fifties and they got nothing but 25 or 30 years of anti-Soviet policy.

Worse than that, it gave the Chinese regime the chance to rally the Chinese around this Chinese myth that everybody in China learns from his mother's knee, and that is that China has suffered 100 years of humiliation at the hands of outside forces.

I thought it was very interesting that when the Chinese closed down Tiananmen Square, they didn't say, just the last few weeks, they weren't closing it down because of the demonstrations last year. They said they were closing it down in commemoration of the anniversary of the Opium War, and that is a very Chinese way of conveying to everybody out in the Chinese People's Republic that what the Chinese Government is telling them is they are facing another attempt by the White Europeans and Americans to open them up by force and to force them to change their policy. And all we are going to do is give the Chinese Government a rallying cry around which to gain a support from their people on nationalistic grounds that they lost by their suppression over the last year.

I would go beyond that though, and say that I think removing MFN just would not work. I think it would actually make matters considerably worse.

I mentioned in the statement the destruction of this entrepreneurial sector that has developed in China under the reform. Congresswoman Pelosi mentioned that the Chinese Government, after Li Peng changed the policy, has tried to bring all that under control, tried to stamp it out. The operative word here is "try." That's their policy. They haven't succeeded.

Local governments and entrepreneurs have been very successful so far in dragging their feet and resisting Li Peng's policy. I mentioned in the statement there were 20 million of these enterprises in China as of May 1988. These private enterprises started out in the rural areas of China as a make work operation. They ended up producing more in the rural areas than the whole agricultural production of the rural areas. And something like 28 percent of China's total industrial product. And there were 20 million of those a year ago. Li Peng and his friends have managed to shut down somewhere between 2 and 4 million of them, we are not sure how many. If we remove MFN, Li Peng's government is going to shut down most of the rest of them.

I just don't think it makes any sense as public policy.

I will just conclude by commenting on the references to MFN with conditions.

The conditions that I heard outlined, I am sure others will be added to it, would in my view, and I think in the view of most people in the business community, would be tantamount to taking MFN away now.

I mean as one company said to me, they called it the 1-year plant closing notice. What is the point of passing a law that says that unless China meets a whole lot of conditions that we all know they are not going to meet, we will take MFN away. All that is going to mean is that companies that have to plan their purchases and plan their investments thinking 3, 4, 5 years out, they are just not going to do it. They are going to use the next year in order to shut down.

If that is what you want to do, just take MFN away right now and let's be done with it.

But this is not even necessary. I am not advocating a policy of business as usual. As a matter of fact, it was mentioned this morning, we should follow a sort of incremental policy of giving China certain benefits and holding back certain ones. I submit that is what the private sector is doing right now. Investment funds, that is American investment in China, has been cut way back. Businesses are looking at the uncertain environment and holding back. And if China improves its environment, business will do more in China. If they don't improve their environment, business will do less in China.

So the private sector is perfectly capable of following that kind of increment policy. And that is the kind of policy that is going to force the Chinese Government to begin to think about changing. And if it doesn't force them to change, it is going to bring about pressures from people underneath them to change them or remove them.

And I think my final point would be that we should not assume in discussing this issue that we are dealing either with a South Africa or with a situation that appears that it is going to go on forever and ever. Now, the distinction I make with South Africa is I don't think anybody ever tried to make the case that trade and foreign investment is subversive of the Apartheid system, but it sure as heck is subversive of a Communist system. They just cannot have it both ways. They have to make compromises with foreign business, or they are not going to get the benefits of foreign business—they either choose one or the other.

The other is that the Chinese regime is not going to go on forever. I think almost all China experts would say that it is likely to be in power for, at most, another 2, 3, 4 years. These are people in their eighties that are out of touch with the world, that are out of touch with their own people. Why destroy a whole structure? Why destroy what little is left of reform in China in order to hurry their departure from the scene when the result will probably be to delay their departure from the scene.

Thank you very much, Mr. Chairman.

[The statement of Mr. Sullivan follows:]

## STATEMENT OF ROGER W. SULLIVAN
## PRESIDENT, US-CHINA BUSINESS COUNCIL

Mr Chairman, Thank you for including me among the witnesses this morning.

The issue of whether to extend China's Most Favored Nation (MFN) status for another year, as we have done every year since 1979, is a difficult one. Americans find the human rights behavior of the current Chinese regime to be abhorrent and support the limited sanctions already adopted by the US Government to express our outrage. Companies find the business climate under such a regime unattractive and hope for a return to the polices of reform and openness. Beijing does not appear to be listening, so it is tempting to consider the withdrawal of MFN as a logical next step. It would certainly be a powerful sanction; indeed I can think of nothing else we might reasonably consider that would cause as much damage to the Chinese economy.

A decision to interfere with free trade in this way and to dismantle the structure of trade built up around the original extension of MFN to China ten years ago would have serious, unintended consequences. Now we may decide those unintended consequences are worth bearing, but we have to know what they are before we can make such an assessment. We need, therefore, to ask the following key questions.

First, who will be hurt? Had we asked ourselves this question in 1980 after the Soviet Union invaded Afghanistan, we would never have imposed the grain embargo, a quixotic gesture which damaged only our own farmers.

Removing MFN is not such an obviously misguided option because China would be hurt. The removal of MFN would increase the rate of duty on the top 25 dutiable imports from China from an average of 8.76% to a prohibitive 50.49%. Considering the types of products now being imported and the comments of business executives closest to the action, we estimate that the removal of MFN would mean at a minimum a 50% reduction (or $6 billion) in Chinese exports to the United States. Some of these products would find markets elsewhere, but most would not since they are produced in large part for the American market by American or other foreign joint ventures or local factories under contract to American, Hong Kong or Taiwan firms. If the US market for these low margin goods were effectively closed, many of these operations would simply move to another country or shut down.

It is impossible to quantify the damage to American consumers, importers and retailers. Importers suggest that over time they would be able to shift to alternative sources elsewhere in Asia or possibly in Eastern Europe but the short-term costs and dislocations would be considerable. Retailers, who must place their orders in March or April for delivery in time for Christmas, would sustain significant losses. Prices on toys, games, clothing and other light industrial products would go up, particularly for those American consumers who try to stretch their limited resources by shopping at K-Mart and other discount stores.

If we revoke China's MFN status, we also must assume Chinese retaliation. American exports, which last year totalled about $6 billion, would be reduced by at least one third. If past behavior is any guide, China would designate the US as a source of last resort. When they did this in 1975-1976 US agricultural exports fell from 5 million tons per year to zero. In 1989 we sold over 7 million tons ($1.08 billion) of wheat, an amount equal to 20% of our total wheat exports, large quantities of fertilizers, $500 million worth of commercial aircraft, over 10% of our total forest products exports, up to one-third of our total soda ash exports and considerable quantities of mining and construction equipment. All of these products are readily available to China from other sources.

Retaliation would also deal a severe blow to American companies who have invested 10 years in trying to enter the emerging China market. For all the real difficulties companies have experienced in China, it is not a market that we should lightly cede to Asian and European competition. This is what would happen were the United States to unilaterally remove MFN from China, a drastic step no other industrialized country is even considering. Finally, among the innocent victims of removal of MFN would be the people of Hong Kong who already face a crisis of confidence over their future under Chinese rule in 1997.

The second question is would all this collateral damage be worth it? That depends on what our policy goal is and whether that goal is achievable through removal of MFN. One appropriate use of sanctions is to express outrage. Removal of MFN would certainly send a powerful message. Is that worth the collateral damage? I do not think so, and I hope the Congress will agree. Ask the farmers who are still living with the after effects of the 1980 grain embargo against the Soviet Union how they feel about losing their livelihood so that the country can express its outrage.

If, on the other hand, our policy goal is to bring about change in China's policies, to encourage greater respect for human dignity and a return to the policies of reform and openness to new ideas, then the costs or collateral damage of sanctions might seem more bearable. It is easy to talk about costs when someone else is going to have to bear them, but if there were any reasonable assurance that removal of MFN would lead to substantial policy change in China or the removal of the current regime, then the costs might well be considered worth it, even by the innocent victims of collateral damage: the farmers, consumers, retailers, importers, exporters, and the people of Hong Kong.

And so we come to the most fundamental question of all: would removal of MFN status work? Would it change the policies of the Chinese Government? The burden of proof ought to be on those who advocate inflicting all this pain on innocent victims, but I will suggest at least a few reasons why the removal of MFN will not bring about the kind of change we all seek in China. The first is history. We tried trade sanctions in 1950 and all they did was to isolate China and enable its government to justify even more repressive measures in the name of nationalism. It took thirty years before we could restore a normal relationship. The Soviet Union tried to bring China to its knees in 1959 by withdrawing credits and technicians, a far more powerful sanction than either our embargo of 1950 or the proposed removal of MFN since China was at that time already isolated from the rest of the world. China's response was to tighten its belt and unite its people in an anti-Soviet campaign that continued for over 25 years.

There is no convincing evidence that the MFN sanction would work, indeed it would probably make matters worse. Certainly it would play into the hands of the hard-liners. MFN does not prop up the anti-democratic, anti-reform central planners in Beijing. On the contrary MFN is what enables some vestige of a pro-reform, market-oriented sector in China to survive. Over 50% (or more than $6 billion) of China's exports to the United States are produced, not by the inefficient State enterprises under the choke-hold grip of the central planning bureaucracy, but by the very people in China who are resisting the Beijing central planners: the entrepreneurial village, private, and foreign joint ventures in South China. There were twenty million such enterprises in China in May 1989. The current leadership has shut down between two and four million of them since. What is the sense of our adopting a policy which would destroy that entire sector? The impoverishment of South China will not damage Li Peng and his colleagues; on the contrary it will remove the last major obstacle to their campaign to stamp out the reforms of the past ten years and restore what President Vaclav Havel called the totalitarian system which is "the source of nightmares."

So am I advocating "business as usual?" Not at all. "Business" is very much not "as usual." We who live within the Beltway too often tend to assume that nothing happens unless government does it. If there are no government-imposed sanctions, we seem to believe, business must be going ahead as usual. But over the past year we have seen that people and organizations are capable of deciding on their own that they cannot or do not want to do business with a centrally-planned, bureaucratically-controlled, anti-market, repressive transitional regime tnat has been denied legitimacy by its own people. It was not the State Department's travel advisory that kept tourists from going to China, it was the situation in China. The travel advisory has been lifted, but the foreign tourists are not returning. There are no sanctions on foreign investment in China; and yet according to the World Bank new foreign investment applications (Japanese, Hong Kong, and European as well as American) fell by 75% over the past year is expected to continue to fall this year.

These private decisions are the sanctions that bite because the pain cannot be blamed on a foreign power- it is self-inflicted. Resentment therefore builds, as is happening in China now, not against the foreigners but against the misguided policies of the Chinese government.

A faltering economy puts pressure on the regime to modify its policies to try to make the environment attractive enough so that foreign companies will resume bringing in badly needed capital and knowhow. But the regime faces a dilemma. As the ideologues of the current regime correctly point out, foreign trade and investment are subversive of a centrally-planned, Marxist-Leninist system. And so such a regime loses either way. If it will not reform, business dries up. If it resumes reform, the regime begins to move toward pluralism and reliance on market forces.

The evidence is clear by looking at what happened in China over the past ten years. The need for foreign investment prompted the government to make concessions and accelerate reforms to get the dead hand of the party out of the economy and to allow at least some economic freedom. One effect of this was the explosive growth in the village and collective enterprises at the expense of the ponderous and inefficient State sector. Another was the rapid expansion of foreign investments employing workers directly, instead of hiring them from the State, setting prices, training workers and managers, developing distribution systems, and showing customers that there is an alternative to taking what the State decides you should have. There are now over 1,000 American joint ventures or wholly-owned enterprises with a total committed investment of about $5 billion scattered throughout China. The vast majority of these enterprises were formed in the last four years in response to improvements in the investment climate brought about by the reforms. They produce, largely for sale on the Chinese domestic market, products ranging from baby food and pharmaceuticals to elevators, automotive vehicles and electronic components and equipment. They are finding the going rough and most of them have put any plans for expansion on hold, but their very existence is a force for change in China.

By the way they respond to their environment, they influence their environment. Depending on which way the Chinese Government moves in the next year or two, these enterprises may either close down, tread water or expand. Their very presence, then, forces the Chinese Government to face the contradictions in its failed policy of seeking economic growth and modernization while at the same time repressing dissent, shutting out new ideas, and re-instituting a Leninist command economy. Contacts with the outside, especially commercial contacts, force the regime to make choices. These contacts helped to bring about the reforms of the past ten years and we should be encouraging them, not debating whether to tolerate their continuance or to cut them off.

Where will the inspiration for reform come from in China if we helped bring about the destruction of the private and semi-private sector in South China and the withdrawal of foreign investment enterprises from China? Again we would play into the hands of the hard-line ideological minority in the Chinese leadership who pay lip service to the slogans of reform and openness to the outside but who appear secretly to favor a return to a more easily managed isolation.

The weight of the evidence suggests clearly, then that revocation of China's most favored nation status would not change the Chinese government or its policies for the better; on the contrary it would cause greater suffering in China and in Hong Kong and probably delay any prospect for return to reform for many years. On what basis, then can we justify such a radical departure from free trade policy as the withdrawal of MFN?

I am aware that many in Congress, including some on this Committee, favor attaching new human rights conditions to future MFN renewal as a compromise measure which would balance the desire to avoid the collateral damage I have outlined with the need to send a strong signal of disapproval to the Chinese leadership.

Attractive though it may be on its face, conditionality creates insurmountable problems in practice. The fundamental problem is that the Chinese leadership, by its intransigence over the past year, has already made clear that it is unlikely to make fundamental changes in internal policy to accommodate US concerns. While they want economic development and trade with the West, the current leaders are even more concerned with their physical and political survival.

American companies understand this clearly. They would conclude that the Chinese would not meet any meaningful conditions that the US government imposed and would make their business plans accordingly. Their Chinese partners would also likely begin making preparations for the time MFN is taken away by, among other things, dumping massive amounts of product in the US market.

The economic damage to China, to Hong Kong, and to the American economy would thus be almost as great with conditional MFN as with outright withdrawal. The only difference is that American companies would have a year's notice to plan their withdrawal from the China market.

The issue would be much more difficult if the current Chinese leadership appeared capable of retaining power far into the future. Most analysts agree this is unlikely. The leadership is old and out of touch with the world and it own people. We need to look beyond this regime, keeping up the pressure for change but positioning ourselves to work effectively with a new, more flexible and reform-minded government when it emerges. This means preserving the structures which have been built up over the past ten years since the establishment of diplomatic relations and maintaining the most extensive private contacts (cultural, educational and commercial) which a xenophobic Chinese regime will permit. This is the basis on which I conclude that American interests are best served by maintaining MFN status for China without new conditions.

Chairman GIBBONS. Our next witness is Mr. Kamm representing the American Chamber of Commerce in Hong Kong.

Mr. Kamm, I know you have come a long way so we would be happy to hear from you.

## STATEMENT OF JOHN T. KAMM, PRESIDENT, AMERICAN CHAMBER OF COMMERCE IN HONG KONG

Mr. KAMM. Thank you very much, Mr. Chairman, distinguished members of the committee, I do greatly appreciate the opportunity and the honor to be here today to address you on this important issue.

The people of Hong Kong appreciate the concern and sympathy you are showing for our situation. It is the first time since the Second World War that Hong Kong has figured prominently in an American national policy debate.

Mr. Chairman, revoking most-favored-nation tariff status—or imposing tough new conditions which effectively accomplish the same thing—is equivalent to a declaration of economic war between the world's richest nation and the world's most populous nation. There will be no winners in such a war. No sanction is more severe, short of a trade embargo, than the imposition on a country's products of the infamously prohibitive Smoot-Hawley tariff of 1930. Before embarking on such a radical and dangerous course, it is prudent to examine the consequences for our national interests and, indeed, for the entire fabric of international economic relations.

Our submission to today's hearing and our submission to the hearing held by the House Foreign Affairs Committee on May 16 detail the substantial damage to Hong Kong and coastal China—the China of Reform—which China's loss of MFN will engender. I invite you to study the 140 pages of testimony and accompanying exhibits. They bear grim witness to the terrible losses which the Cantonese economy will suffer. Hong Kong will be dealt a body blow to confidence, and its viability will be threatened as $10 billion in trade contracts and at least 20,000 jobs disappear in the first year after most favored nation is revoked.

Guangdong Province, the model of economic reform and an engine of change in China, will be plunged into economic depression. Some 1 million people, mostly employed in the economy's most progressive sector, will be thrown out of work. Hardship in other coastal regions like Shanghai and Fujian will also be severe.

The impact of China losing most favored nation will be considerably less for inland provinces, especially those with little foreign trade, or those whose trade is directed to countries other than the United States. Moreover, the organs of the central government will probably suffer least of all for reasons I put forth in my testimony, which I will be happy to expand upon in the question and answer period.

Others here today have testified or will testify on the probable consequences of China's most favored nation loss for American farmers, American importers and exporters, and American consumers. Damage to these interests will be significant. The increased use of trade benefits as political weapons bodes ill for our country just at a time when real progress is being made in reducing our trade deficit.

If Congress makes MFN conditional on a country's human rights behavior—beyond the Jackson-Vanik provisions—how many of the 178 countries presently enjoying this status would deserve to keep it? South Africa? Syria? Iraq? Should the United States grant MFN to countries branded as terrorist states? Presently, Laos does not enjoy MFN status, in large part, because its Government has not done enough in our eyes to combat the export of narcotics. Should other countries judged to be soft on drugs be stripped of their MFN status? Under current legislation, the President can waive the MFN clause in the GATT in case a country discriminates against U.S. products.

Promoting human rights, fighting terrorism and the drug trade, and opening foreign markets to American products are all national priorities. But there must be better ways to pursue them than using MFN as a weapon. Bilateral and multilateral extension of most favored nation has played a decisive role in the development of today's global economy. Taking MFN away from the world's most populous nation will set a dangerous precedent that will have far reaching consequences.

Will revoking MFN lead to better observance of human rights and democracy for the Chinese people? The proponents of taking this step have not made convincing arguments that it will. And in view of the damage to our own and our friends' interests, the burden of demonstrating such gains rests with them.

We believe that revoking China's preferential tariff status will not yield significant human rights dividends, nor progress toward democracy for the following reasons:

First, it is a unilateral act unsupported by any other country taken 1 year after the event we seen to censure.

Two, the Chinese Government has, on three occasions since 1949, successfully stood up to external sanctions without modifying domestic policies.

Three, China is a huge country with 30 provinces each the size of a European country. The pain which most favored nation removal will cause is not evenly distributed, hurting coastal areas far more than the constituencies where China's hardliners are strongest.

Four, the damage to Hong Kong, coastal China, and overseas Chinese communities in Southeast Asia will engender resentment toward the United States and divide the opposition to the Beijing regime.

Five, the state and party's propaganda apparatus will portray America as a bully and pin the blame for economic problems on U.S. sanctions, stoking the flames of Chinese nationalism.

And, finally, six, the state will employ administrative measures to build up foreign exchange reserves, enabling it to significantly dull the pain as and when needed.

Mr. Chairman, Members of Congress, the choice is between certain loss and uncertain gain. Stripping China of MFN is the wrong weapon. It is counterproductive and sets a dangerous precedent. It hurts our friends and allies more than it hurts those we seek to punish. It is unlikely to produce human rights improvements and political reforms that we all desire.

It is in our interest, in Hong Kong's interest, and in the interest of China's reformers that MFN be renewed.

Thank you.

[The statement of Mr. Kamm follows:]

THE AMERICAN
CHAMBER OF COMMERCE
IN HONG KONG

美國商會

Testimony to the House Ways & Means Committee
-- Trade Subcommittee Hearings on
China's MFN Status June 19, 1990

By John Kamm, President of AmCham in Hong Kong

Mister Chairman, members of the Subcommittee:

China's retention of Most Favored Nation (MFN) status has been hotly debated in Congress since the President made his recommendation to extend preferential tariff treatment on May 24. These hearings offer the best opportunity to weigh the arguments and arrive at a balanced judgement on how Congress should respond to the President's recommendation, and the American Chamber of Commerce in Hong Kong is honored to have been invited to contribute to your Subcommittee's deliberations.

On May 16 our Chamber submitted testimony on China's MFN status to a joint hearing of three subcommittees of the House of Representatives Foreign Affairs Committee. I have brought additional copies of our submission for your Subcommittee's reference. The package of testimony being handed over today contains much new material, and serves to buttress arguments that revoking China's MFN status is contrary to our national interests and counterproductive to the cause of democracy and reform in China.

It is in our national interest to preserve a stable and prosperous Hong Kong. We have significant trade with and investments in Hong Kong. America's government is committed to a bipartisan policy in support of Hong Kong's future. It is most decidedly in the interest of China's reformers to have a strong Hong Kong. Yet nearly everyone I've spoken with in Washington agrees that taking MFN away from China will badly damage Hong Kong. No one has questioned the evidence that this is the case. No one has questioned the serious implications of this finding for the debate on China's MFN status.

In addition to hurting Hong Kong and Macau, revoking MFN will cause Guangdong Province and other coastal regions massive losses. I will expand on this theme later in this testimony, drawing on expert opinion submitted by Ezra Vogel of Harvard University. It will also hurt American consumers and american exporters whose sales to China and Hong Kong (a market of US$12 billion) will be badly affected.

Against such clear losses the proponents of stripping China of MFN must demonstrate the likelihood of gain. They need to show that the pain inflicted on China's rulers will somehow result in improvements in human rights, in greater freedom for the Chinese people. We hold that it is unlikely that this unilateral act, unsupported by any other country, will yield significant human rights dividends, and we believe historical evidence and a careful reading of the present situation support our argument.

**Against certain loss is set problematic gain. Given the stakes, Congress should vote for renewing China's MFN status, difficult and even unsavory as that might be. Realization that this is the wrong weapon, that it hurts too many innocent people, is not a sign of weakness, but rather a demonstration of the strength of our system of government, wherein policy decisions are reached through the crucible of free debate.**

(1) Damage to Hong Kong

Hong Kong's Governor, Sir David Wilson, has asserted that revoking China's MFN will lead to trade losses of $10 billion and employment losses of at least 20,000 jobs in the territory, Gross Domestic Product (GDP) would suffer a negative impact of 2-3 percent. Given Hong Kong's size and dependence on trade, losses of this magnitude would have serious consequences for the territory's viability.

Several members of Congress have expressed an interest in learning more about the Hong Kong Government's estimates. I have obtained a copy of their export on which the estimates are based, and have obtained permission to release key parts so ~~this~~ internal document to your Subcommittee (Exhibit one).

AmCham's own surveys differ slightly from the Government's. We see a drop of $8-9 billion in export trade and job losses far in excess of 20,000. Recent interviews with leading executives indicate that both our own and the Government's assumption of a 50 percent loss in China-sources reexports may be conservative (Exhibits Two and Three).

The danger to the territory's survival has produced as united a position on a single issue as I have witnessed in 18 years of living in Hong Kong. In our last submission we presented petitions from the Legislative Council and virtually every major commercial and industrial association imploring Congress to renew MFN. The opposition of Hong Kong to China's loss of MFN is noteworthy as its people are in the forefront of the struggle for change in China. They recently gained the respect of the world for their march of 250,000 people to commemorate the victims of Tiananmen Square (Demonstration's number). The people who marched held up signs demanding human rights and the release of political prisoners, but I and many others who observed the peaceful demonstration did not see signs or hear calls for economic sanctions. The day after the protest, June 4, one of its leaders, Mr. Martin Lee and I appeared on radio and the question of MFN arose. A transcript of our exchange is appended (Exhibit Four). Mr. Lee's assessment of people's feelings on this matter are those of the man on the street. Hong Kong is calling on Congress to continue MFN treatment for China, and Hong Kong has earned the rights to be heard.

(2) Damage to Macau

The Macau Government has not done an estimate of the damage to this enclave of 500,000 people of China's loss of MFN. Damage will be substantial as Macau is even more integrated into South China than Hong Kong. I am including in my submission a letter from the Macau Government (Exhibit Five).

(3) Damage to Guangdong Province

Guangdong Province has close historic and commercial ties to the United States. A majority of Chinese American trace their roots to this province which borders on Hong Kong and Macau.

Guangdong Province has been in the forefront of economic reform in China since 1979. I have asked America's foremost authority on post-1949 Guangdong Province, Professor Ezra Vogel of Harvard University, for an opinion on the impact of withdrawing MFN status on the province, and I am including this illuminating document as Exhibit Six in my submission.

I am also including a recent article from the Asian Wall Street Journal on the same subject (See Exhibit Seven).

Since 1988, I have been an Honorary Associate Professor of the Guangzhou Foreign Trade Institute, China's second largest school for the training of foreign trade workers. Like so many institutions around China, the students and faculty risked much to support last year's democracy movement and the great majority still believe in its goals. I have visited the campus on several occasions since last spring and, in private discussions with close friends, the issues of economic sanctions and MFN removal have been raised. I wish to state unequivocally that no one I have spoken to wants Congress to remove MFN.

Scholars from this institute claim that revoking China's MFN status will affect Guangdong in the following ways:

(1) Guangdong will lose roughly $2 billion in exports, or about 30 percent of total export;

(2) About 12 percent of total industrial capacity will be idled;

(3) New investments from United States companies will cease and existing investments (totalling $1 billion) will be badly hurt by declines in both sales and purchases. Loss of MFN will also discourage new investments by Hong Kong, Macau and Taiwan firms;

(4) An estimated one million workers will lost their jobs; and

(5) Imports of U.S. products, worth an estimated US$1 billion in 1989 (figure includes goods reexported by Hong Kong), will be curtailed.

As one teacher put it, "Guangdong's economy and its reform program will be destroyed if China loses MFN. Guangdong as a model for the rest of China will be rejected. America must realize that Guangdong offers the best hope for political reform based on openness and rising living standards. It is inconceivable that America would cripple us by removing MFN."

(4) Damage to China as a whole

One of the odd features of the present debate is that proponents of revoking China's MFN status have failed to produce estimates which measure the economic damage their act will cause to China, nor do they analyze how the damage will be distributed among industrial sectors and provinces. This seems a critical flaw as the force of their argument is that removal of MFN is so much more damaging than other sanctions that it will succeed where other sanctions have failed.

As we have shown, the damage to Guangdong Province will be significant, and will probably lead to economic depression. It is logical to assume that other regions which enjoy large exports to the United States would be hurt more than those that have small sales to America (or have none at all). Both Fujian (US$1,0362 million in U.S. sales in 1988) and Shanghai (US$4,576 million in U.S. sales in 1988) direct about 30 percent of total exports to the American market. By contrast, a province like Heilongjiang, an industrial and raw material base on the Soviet border, sells little to the United States. It's exports to Russia doubled in 1989 and are expected to double again this year. It is conceivable that this province and others locked into special economic relationships could actually benefit from China's loss of preferential tariff status in the United States as central funds invested in export production bases would probably be diverted from the coast to the interior. By and large, provinces in China's interiors would be little hurt if China lost MFN, as few do significant foreign trade (See Exhibit Eight for a breakdown of China's imports and exports by province).

Thus, while China as a whole will suffer from losing MFN the pain will not be evenly distributed. Moreover damage to organs of the central government -- including several which have been instrumental in the crackdown -- will be diminished by a number of factors. These include:

(1) Product mix: the central government handles exports of critical raw materials whose Column II rates are not significantly greater than Column I rates. Consumer goods like toys and garments are exported mostly by localities, and these are precisely the products which will be hit hardest by imposition of the Smoot-Hawley tariff;

(2) Subsidies: the central government is better able to absorb export losses than local governments; and

(3) Foreign Exchange Retention: under the contract responsibility system governing China's foreign trade since 1988, local governments guarantee the central government a fixed sum of foreign exchange. Above this amount, provinces and other administrative units are permitted to retain 80 percent of the foreign currency proceeds of their exports. These sums, known as "local foreign exchange" have become very substantial in recent years, and they are employed by local governments to fund imports (See Exhibit Nine). Because of the fixed amount guarantee, loss of MFN would deplete local foreign exchange reserves while leaving central reserves relatively untouched.

In short, stripping China of MFN will disproportionately hurt coastal provinces and will promote the recentralization of China's economy; both these developments would be serious blows to China's reformers.

(5) The Efficacy of Sanctions

The economist Margaret Doxey, an expert in the field of international economic sanctions, has concluded that "(one cannot) claim that sanctions are without political, economic and psychological effects, although it is difficult to measure them. Other factors and forces will also be at work and no one knows what the situation would have been in the absence of sanctions. Successful defiance of economic sanctions by the target may actually produce durable, beneficial changes in the structure of its economy. Moreover it is impossible to contain the damage, and sanctions which were intended to have specific negative effects on the target, leaving the rest of the world relatively unscathed, may produce unintended and diffused effects. Changes induced by sanctions in patterns of international commercial and financial interaction may cost the sanctioning group far more than was anticipated, and even trigger an unforeseen and unwelcome chain of events which is difficult to control.)" (Margaret Doxey, International Sanctions in Contemporary Perspective).

An examination of the likely consequences of revoking China's MFN status confirms the truth of Dr. Doxey's observations. Loss of MFN will encourage such structural changes as recentralization and greater reliance on trade with countries other than the United States. An unintended consequence would be serious economic and psychological damage to Hong Kong, an American friend and ally.

But what of the intended effect? Will revoking China's MFN lead to improvements in human rights? Will it promote democracy and a return to the policy of economic reform? If the answer to these questions is yes, than a strong argument can be made that the damage which Hong Kong, Guangdong and America, among others, will suffer is worth the price.

Unfortunately, there is little to suggest that stripping China of MFN will have the desired effects. Indeed, a case can be made that taking MFN away from China will actually worsen the human rights situation in China be removing any leverage we might have to influence the government, and by cutting off Chinese people, including those in positions of importance, from contact with Americans.

Evidence from history suggests that external pressure in the form of economic sanctions has not succeeded in forcing domestic policy changes in China. Neither United Nations sanctions imposed during the Korean War nor Russian sanctions initiated in 1960 had their intended effects, despite considerable pain inflicted on China's economy.

One year ago the President, in concert with our allies, imposed a range of economic sanctions in China, and these sanctions were made law by Congress in January. Although I understand that many in Congress feel these sanctions have been too weak and too easily waived, I know from experience that they have inflicted considerable pain, as detailed in the President's report received by Congress last month. China has effectively lost US$2 billion in World Bank loans and several hundred million in Asian Development Bank loans. Its ability to buy military hardware has been constrained and its access to high technology restricted.

Yet, at last month's hearings before the House of Representatives' Foreign Affairs Committee, the morning session's panelists were unanimous in their assessment that China's human rights situation has deteriorated over the entire time the sanctions were in effect. Where is the convincing argument that using a bigger stick -- wielded by America alone -- will produce the desired effects?

The ability of China's rulers to defy economic sanctions, especially unilateral acts by individual states, derives from the country's size and the coercive measures available to the state to blunt and divert external threats. As a Chinese student in North Carolina wrote to Senator Jesse Helms, "Practically, economic sanctions are useless when you deal with the Chinese government, because none of the countries in the world can be rich enough to control the entire economy of China. The effect of economic sanctions is always to bring back Chinese nationalism instead of change to the system".

The central government's power to enforce administrative measures over the economy means that it is able to build up foreign exchange reserves quickly. This is precisely what is going on today. The threat of sanctions is reinforcing an austerity program that has seen imports plummet, and China's holdings of foreign currency and gold have soared (See Exhibit Ten).

In addition to vast powers over the economy, the party and state control a propaganda machine capable of portraying foreign sanctions as being the root cause of all economic difficulties. This too is going on today, and while it is true that not all Chinese people believe the party line, there are still huge numbers, certainly a majority in rural areas, who are taken in.

The threat of MFN removal -- as opposed to actual removal -- may, in concert with other factors like efforts to attract back foreign investors and tourists and generally improve China's reputation, yield marginal human rights gains. It is likely that the possibility of MFN loss has been one of the factors behind recent releases of some political prisoners. It also appears that China has eased up pressure on Hong Kong in part because of Hong Kong's efforts on the MFN issue. We know far too little about the internal decision-making process in Beijing to judge the impact of the threat of MFN loss, but on the whole we can safely predict that it alone cannot effect significant human rights improvements.

Just because stripping China of MFN is not a recommendable course of action does not imply that nothing can be done to alleviate human rights abuses or otherwise encourage change in China. Many in the private sector will continue to shun major investments, tourists will not return and Hong Kong will not regain its confidence until fundamental conditions improve in China. Government sanctions which target specific transactions involving specific units of the central government can be effective. Refusal to host visiting delegations and pay visits to Beijing wound the egos of Chinese leaders. While lacking the dramatic and devastating punch represented by MFN removal, these private-sector and public-sector sanctions, when consistently and evenly carried out by as many countries as possible, provide backup to the Chinese people in their brave efforts to gain human rights and democracy. For it is they, not us, who are the critical force for change in China. And it is they who will win the fight for which so many brave people have given their lives.

## Submission to the House Ways & Means Committee -- Trade Subcommittee Hearings on China's MFN Status, June 19, 1990

Testimony by John Kamm, President of AmCham in Hong Kong

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|---|---|
| Exhibit One: | Impact Assessment by Hong Kong Government |
| Exhibit Two: | AmCham Damage Assessments |
| | a. Trade |
| | b. Employment |
| Exhibit Three: | Testimonial(s) |
| Exhibit Four: | Hong Kong Radio Interview, June 4, 1990 |
| Exhibit Five: | Letter from Macau Government |
| Exhibit Six: | Opinion by Prof Ezra Vogel |
| Exhibit Seven: | Asian Wall Street Journal Article, May 28, 1990 |
| Exhibit Eight: | Provincial Imports and Exports, 1988 |
| Exhibit Nine: | Local Foreign Exchange |
| Exhibit Ten: | China's Foreign Exchange Reserves |

**EXHIBIT 1**

## Impact Assessment by Hong Kong Government

# RESTRICTED 內部文件

An assessment of the impact on
the Hong Kong economy of China's exports losing
their MFN stat in the United States

### Summary

If China loses its MFN status in the United States, there are likely to be:

- a reduction by 35% to 50% or HK$23 - 32 billion (US$3.0 - 4.1 billion) worth of Hong Kong's re-exports from China to the United States
- together with other related trade flows, a reduction by 5% to 7% or HK$55 - 78 billion (US$7 - 10 billion) worth of Hong Kong's overall trade
- a loss in Hong Kong of round HK$5 - 7 billion (US$0.6 - 0.9 billion) in income and probably over 20 000 jobs as a direct impact; GDP growth rate likely to be curtailed from its trend value by 1/5 to 1/4 in the year of incidence
- a further loss in income and jobs if China cuts back on its imports as a result
- significant adverse effect on manufacturing investment ventures and outward processing arrangements by Hong Kong and foreign companies in China; Hong Kong's role as gateway to China likely to be undermined, thus affecting longer-term growth potential and business confidence in Hong Kong.

## Background

Since 1980, exports from China have enjoyed the Most Favoured Nation (MFN) status in the United States, which confers the lowest available tariffs to the goods as they are imported into the United States. China's MFN status must be renewed each year by a Presidential waiver. Unless this is granted before 3 June 1990, China's MFN status in the United States will be lost.

## Importance of the MFN status to China's exports to the United States

2. If China's MFN status is removed, the tariff rates for most of China's exports to the United States will be increased by around 6 to 15 times. Currently the MFN tariff rates for Chinese goods are generally well below 10%. Their corresponding Non-MFN tariff rates are in the range of 40% to exceeding 100%. A table comparing the MFN and Non-MFN rates for selected products is at Annex I.

## Relative importance of re-exports of China origin to the United States to the Hong Kong economy

3. Removal of China's MFN status by the United States will have a direct adverse impact on Hong Kong's re-exports of China origin to the United States. It is therefore useful as a starting point to assess the relative importance of this trade to the Hong Kong economy. In 1989, re-exports of China origin to the United States amounted to HK$66 billion (US$8.5 billion), representing 19% of Hong Kong's total re-exports. 92% of Hong Kong's re-exports to the United States were of China

origin. A statistical table showing the principal product breakdowns is at Annex II. The main product categories are electrical appliances and electronics (representing 22.6% of these re-exports in 1989), toys, games and sporting goods (20.7%), garments and clothing accessories (19.3%), footwear (7.5%), and travel goods and handbags (6.8%).

4. It is estimated that around 34 000 jobs in Hong Kong's import/export trade and HK$7.6 billion (US$1 billion) of value-added contribution to Hong Kong's GDP in 1989 were in connection with this stream of re-exports involving China as the origin and the United States as the destination. The latter contribution amounted to 1.6% of the overall GDP in 1989. Derivation of the above estimates is shown in Annex III. Moreover, there are additional employment and income contributions from Hong Kong's manufacturing sector in respect of those re-exports from China that are the result of outward processing activities, but in the absence of data the amount involved is not directly known.

## Effect of removal of China's MFN status on Hong Kong's trade

5. A rough assessment has been made of the proportion of Hong Kong's re-exports of China origin to the United States that is likely to be lost if China's MFN status is removed. Although the relevant exporters in China as well as trading companies in Hong Kong would probably be prepared to accept a cut in their profit margins in order to dilute the effect of the higher tariff, it is not unreasonable, if only for the purpose of assessing relative competitiveness, to assume that the

whole of the tariff increase would be reflected in the US import prices of the Chinese goods. The adjusted import prices of the Chinese goods are then compared with the import prices of corresponding products from China's major competitors in the US market. Based on price differential and market share considerations, an educated guess can be made on the possible impact of the MFN removal on re-exports in each of the main product categories. A note describing this assessment in greater detail is at Annex IV.

6. Summing up, Hong Kong's re-exports of China origin to the United States would probably be reduced by 35% to 50% or HK$23 - 32 billion (US$2.9 - 4.1 billion) as a direct consequence of the MFN removal. On the basis of the data available, the greatest impact is likely to fall on garments, followed by footwear, and electrical appliances and electronics. Toys, and travel goods and handbags are expected to face relatively less, but still not insignificant, impact.

7. In terms of the effect on Hong Kong's overall trade flows, there are two other components which are likely to be affected as a result of the reduction in Hong Kong's re-exports of China origin to the United States. First, these re-exports will have to be preceded by import of the goods from China into Hong Kong. Taking into account the re-export margin, the reduction in value of these imports is expected to be marginally smaller, at around HK$20 - 29 billion (US$2.6 - 3.7 billion). Secondly, given that a substantial and growing proportion of Hong Kong's re-exports of China origin to the United States is not so much in the nature of pure entrepôt trade but is actually the result of outward processing activities commissioned by Hong Kong manufacturers, the export of those products will require certain raw

materials and semi-manufactures to be supplied to the outward processing units in China in the first place. As a crude estimate, the trade flows relating to such supplies would probably be reduced by HK$12 - 17 billion (US$1.5 - 2.2 billion). For the three trade components taken together, in gross value terms Hong Kong's overall trade would probably be reduced by HK$55 - 78 billion (US$7 - 10 billion).

## Economic damage likely to be incurred by Hong Kong as a result of China losing its MFN status in the United States

### (A) Direct impacts

8. Using 1989 as the reference year and based on the estimated reduction of 35% to 50% in Hong Kong's re-exports of China origin to the United States, the following table shows, as a bare minimum, the estimated loss of jobs in the import/export trade and of value-added contribution to the GDP :

| Proportion of re-exports from China to USA likely to be reduced | Estimated loss of jobs in the import/export trade sub-sector | Estimated loss of value-added contribution to GDP by the import/export trade sub-sector | |
|---|---|---|---|
| | (Number) | (HK$ Mn) | (US$ Mn) |
| 35% | 11 900 | 2,673 | 343 |
| 50% | 17 000 | 3,819 | 490 |

Hong Kong's GDP is estimated at HK$491.6 billion at current prices in 1989. Thus, as a bare minimum, the loss would amount to 0.54% to 0.78% of the overall GDP.

9. However, in view of the fact that (a) additional activities in the transport, storage, communications, finance and business services sectors are generated in

support of the re-export trade, (b) those re-exports which are the result of outward processing arrangements embraces greater value-added contributions, and (c) some transhipment and other indirect trade of China origin which are not shown in Hong Kong's trade figures will also be affected, the loss in GDP could be considerably higher. Applying a probably conservative multiplier of, say, 1.8* to the minimum loss to account for these related impacts, the combined loss would amount to HK$5-7 billion or 1% to 1.4% of the overall GDP. The loss in employment would probably exceed 20 000.

10. While the loss in GDP may appear small in percentage terms it has to be seen against the trend growth rate of the economy, which is projected to be 5.5% per annum over the medium term. Hence the direct impact would be to curtail this growth rate by as much as one-fifth to one-quarter in the initial year. In the subsequent years, the adverse impact on the GDP growth rate is expected to lessen as the shock filters through. But as the growth rate of re-exports from China to the United States is unlikely to be as fast as previously in the absence of the MFN status for China, some negative effect would still persist.

### (B) Indirect impacts

11. As the MFN status is granted on a reciprocal basis, it is most likely that China would retaliate by withdrawing the MFN status of exports from the United

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(*) Of the additional impact represented by the factor of 0.8, 0.3 is assumed to be attributed to (a) and (c), and 0.5 to (b). These assumed figures are broadly in line with anecdotal information derived from the relevant economic surveys.

States to China. Hong Kong's re-exports of US origin to China amounted to HK$10.3 billion (US$1.3 billion) in 1989. This is about one-sixth of Hong Kong's re-exports of China origin to the United States.

12. Furthermore, as China needs to finance most of its imports by the foreign exchange earned from its exports, removal of its MFN status in the United States is bound to reduce its export earnings and hence its ability to source imports. Since China sources about one-fifth of its imports from Hong Kong, and this proportion could be even higher if re-exports through Hong Kong into China are fully taken into account, Hong Kong's exports to China would likewise be reduced in the event that China's ability to import is hampered.

13. The effects on Hong Kong's exports to China due to China's possible retaliation and its possible reduction in foreign exchange earnings are not entirely separate from each other. The latter factor is, however, likely to be more important than the former, since retaliation per se may lead to diversion to other sources of overseas supply and not necessarily a cut-back in trade. In these circumstances, the impact on Hong Kong would probably be a further loss in GDP by a small fraction of a percentage point.

(c) Longer-term impact on investment and business confidence

14. China's MFN status in the United States is a crucial factor which has been taken for granted by Hong Kong companies when they involve themselves in manufacturing investment ventures and outward processing arrangements in China, with a view to exporting to the United States. The same applies to foreign manufacturers who come to invest in China through Hong Kong. Removal of

China's MFN status would deal a heavy blow to these investments and collaborative manufacturing activities. Hong Kong and foreign companies alike would seek to relocate their production facilities out of China to other places in South East Asia, with the result that the operations would become more costly and less efficient. This diversion of investment would reduce further the longer-term growth potential of the Hong Kong economy.

15. With the prospect of a substantial setback in two-way trade between China and the United States through Hong Kong, Hong Kong's position as a gateway for business in and with China would be seriously undermined. In the worst scenario, confidence in Hong Kong's economic future might be called into doubt.

## Conclusion

16. In summary, if China loses its MFN status in the United States, there is likely to be :

(a) a reduction by 35% to 50% or HK$23-32 billion (US$3.0-4.1 billion) worth of Hong Kong's re-exports of China origin to the United States. Taking into account other related trade flows that would likewise be affected, in gross value terms Hong Kong's overall trade would probably be reduced by 5% to 7% or HK$55 - 78 billion (US$7 - 10 billion);

(b) a loss in Hong Kong of around HK$5-7 billion (US$0.6-0.9 billion) in income and probably over 20 000 jobs as a direct impact. This would reduce the overall GDP by 1% to 1.4%. Putting this impact in the proper context, the GDP growth rate would be curtailed from its trend value by one-fifth to one-quarter in the year of incidence; and

(c) a further loss in income and jobs if China cuts back on its imports either from the United States or generally;

In the longer term, if manufacturing investment is diverted elsewhere, Hong Kong's potential for economic growth and its role as a gateway to China would be undermined. In the worst scenario, business confidence in Hong Kong might be called into doubt.

Economic Analysis Division
Economic Services Branch
Government Secretariat,
Hong Kong
1 May 1990 (slightly expanded on 7 May 1990)

0151A

Comparison of MFN and Non-MFN Rates
for Selected Products

| Item | MFN rate | Non-MFN rate | Difference Non-MFN / MFN |
|---|---|---|---|
| Toys | | | |
| Dolls (stuffed) | 12% | 70% | 5.8 times |
| Electric trains | 6.8% | 70% | 10.3 times |
| Puzzles and parts and accessories | 6.8% | 70% | 10.3 times |
| Articles of apparel & clothing | | | |
| Women's or girls' dresses, containing 36% or more by weight of flax fibres | 5.9% | 90% | 15 times |
| Women's or girls' blouses, skirts and shirt, blouses of silk or silk waste | 7.5% | 65% | 8.7 times |
| Men's or boys' anoraks (including ski-jackets), windbreakers and similar articles, of cotton | 4.7% | 60% | 12.8 times |
| Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton | 4.7% | 60% | 12.8 times |
| Radio | | | |
| Radio | 6% | 35% | 5.8 times |
| Radio cassette recorder | 4.9% | 35% | 7.1 times |
| Jewelry | | | |
| Imitation jewelry of base metal, whether or not plated with precious metal | 11% | 110% | 10 times |
| Watches & Clocks | | | |
| Wrist watches, battery powered, other than those with case of precious metal or of metal clad with precious metal (with opto-electronic display only) | 3.9% on the movement and case + 5.3% on battery | 35% | Variable |
| Alarm clocks, battery or AC powered (with opto-electronic display only) | 3.9% on the movement and case + 5.3% on battery | 35% | Variable |
| Domestic Electrical Appliances | | | |
| Hair dryers | 3.9% | 35% | 9 times |
| Toasters | 5.3% | 40% | 7.6 times |
| Coffee makers | 5.3% | 40% | 7.6 times |

Annex II

### Analysis of HK's re-exports of China origin to the US

| Principal commodity | Value of re-exports 1988 HK$Mn. | 1988 % | 1989 HK$Mn. | 1989 % | Growth rate of 1989 over 1988 % | Average annual growth rate in last 5 years (1984-1989) % |
|---|---|---|---|---|---|---|
| Toys, games, sporting goods and baby carriages | 9,390 | (21.7) | 13,666 | (20.7) | + 45.5 | + 64.9 |
| Toys (excluding dolls), plastic, not containing electric motor | 4,194 | (9.7) | 6,348 | (9.6) | + 51.4 | + 58.9 |
| Toys (excluding dolls), stuffed | 1,397 | (3.2) | 1,416 | (2.1) | + 1.4 | + 74.6 |
| Carnival articles; christmas tree decorations and similar articles (excluding christmas tree lighting sets) | 844 | (2.0) | 1,710 | (2.6) | + 38.7 | + 88.6 |
| Toys (excluding dolls), plastic, containing electric motor, not radio controlled | 806 | (1.9) | 1,343 | (2.0) | + 66.7 | +187.4 |
| Dolls, plastic | 568 | (1.3) | 763 | (1.2) | + 34.2 | + 67.7 |
| Dolls, stuffed | 345 | (0.8) | 431 | (0.7) | + 24.7 | + 38.6 |
| Toys (excluding dolls), metal, not containing electric motor | 304 | (0.7) | 422 | (0.6) | + 38.5 | + 80.7 |
| Miscellaneous manufactured articles | 2,497 | (5.8) | 3,434 | (5.2) | + 37.5 | + 28.1 |
| Artificial flowers of textile materials | 1,238 | (2.9) | 1,528 | (2.3) | + 23.3 | + 47.6 |
| Basketwork, wickerwork and other articles of plaiting materials (not furniture) | 310 | (0.7) | 386 | (0.6) | + 24.4 | + 9.6 |
| Bamboo articles | 238 | (0.5) | 338 | (0.5) | + 42.3 | + 8.8 |
| Miscellaneous articles of plastic materials | 611 | (1.4) | 1,552 | (2.4) | +154.0 | +139.2 |
| Table and household (including hotel and restaurant) or decorative articles of artificial plastic materials | 260 | (0.6) | 379 | (0.6) | + 45.4 | +145.6 |
| Outer garments, women's, girls' and babies', of textile fabrics (not knitted or crocheted) | 2,978 | (6.9) | 4,199 | (6.4) | + 41.0 | + 33.0 |
| Blouses, not knitted or crocheted, of silk, not embroidered | 592 | (1.4) | 682 | (1.0) | + 15.2 | + 57.8 |
| Blouses, not knitted or crocheted, of man-made fibres, not embroidered | 429 | (1.0) | 555 | (0.8) | + 29.5 | + 42.6 |
| Slacks, shorts, jeans and trousers, women's, not knitted or crocheted, of cotton | 259 | (0.6) | 418 | (0.6) | + 61.1 | + 27.2 |
| Outer garments and other articles, knitted or crocheted, not elastic nor rubberized | 1,784 | (4.1) | 3,439 | (5.2) | + 92.8 | + 48.6 |
| Jackets, twinsets, sweaters, cardigans and pullovers, women's, knitted or crocheted, of textile materials other than wool, cotton, man-made fibres and silk | 448 | (1.0) | 1,408 | (2.1) | +214.5 | + 60.4 |
| Jackets, twinsets, sweaters, cardigans and pullovers, women's, knitted or crocheted, of wool | 270 | (0.6) | 327 | (0.5) | + 21.1 | + 57.9 |
| Articles of apparel and clothing accessories of materials other than textile fabrics | 1,434 | (3.3) | 1,482 | (2.2) | + 3.3 | + 33.4 |
| Gloves and mittens, partly of leather and partly of textile materials | 323 | (0.7) | 400 | (0.6) | + 23.7 | + 19.2 |
| Gloves, of unhardened vulcanized rubber | 321 | (0.7) | 41 | (0.1) | - 87.3 | +524.1 |

| Principal commodity | Value of re-exports |  |  |  | Growth rate of 1989 over 1988 | Average annual growth rate in last 5 years (1984-1989) |
|---|---|---|---|---|---|---|
|  | 1988 |  | 1989 |  |  |  |
|  | HK$Mn. | % | HK$Mn. | % | % | % |
| Outer garments, men's and boys', of textile fabrics (other than knitted or crocheted goods) | 953 | (2.2) | 1,444 | (2.2) | + 51.6 | + 22.8 |
| Slacks, shorts, jeans and trousers, men's, not knitted or crocheted, of cotton | 285 | (0.7) | 460 | (0.7) | + 61.2 | + 34.2 |
| Radio-broadcast receivers (with or without sound recorders or reproducers) | 2,252 | (5.2) | 3,796 | (5.8) | + 68.6 | + 70.9 |
| Radio-broadcast receivers, portable, incorporating sound recorders or reproducers, complete | 1,232 | (2.8) | 2,228 | (3.4) | + 80.9 | + 66.5 |
| Radio-broadcast receivers, portable (excluding receivers incorporating sound recorders or reproducers), complete | 567 | (1.3) | 675 | (1.0) | + 18.9 | +101.4 |
| Telecommunications equipments, their parts and accessories | 855 | (2.0) | 2,073 | (3.1) | +142.4 | +384.9 |
| Electrical line telephonic apparatus | 560 | (1.3) | 1,288 | (2.0) | +130.0 | +458.9 |
| Hi-Fi equipment and other sound and TV recorders | 643 | (1.5) | 1,431 | (2.2) | +122.6 | +190.2 |
| Sound recorders, cassette tape type, for office use | 319 | (0.7) | 913 | (1.4) | +186.2 | +832.3[b] |
| Sound recorders, cassette tape type | 318 | (0.7) | 502 | (0.8) | + 57.8 | +135.4 |
| Travel goods, handbags, brief-cases and similar containers, of leather, plastic or other materials | 3,625 | (8.4) | 4,498 | (6.8) | + 24.1 | + 42.4 |
| Handbags of plastic materials | 815 | (1.9) | 1,071 | (1.6) | + 31.4 | + 55.9 |
| Handbags of leather | 704 | (1.6) | 913 | (1.4) | + 29.7 | + 41.0 |
| Handbags and similar articles of textile materials | 480 | (1.1) | 443 | (0.7) | - 7.7 | + 17.6 |
| Shopping-bags, haversacks, rucksacks and toilet cases of textile materials | 254 | (0.6) | 250 | (0.4) | - 1.8 | + 30.6 |
| Household type, electrical and non electrical equipment | 3,072 | (7.1) | 4,185 | (6.3) | + 36.2 | +100.8 |
| Electric hair dressing apparatus (e.g., hair dryers, hair curlers, curling tong heaters) | 1,501 | (3.5) | 1,834 | (2.8) | + 22.2 | +130.7 |
| Ceiling fans, electro-mechanical | 528 | (1.2) | 834 | (1.3) | + 57.9 | + 53.1 |
| Electric shavers | 283 | (0.7) | 81 | (0.1) | - 71.4 | +356.9[a] |
| Footwear | 2,486 | (5.7) | 4,926 | (7.5) | + 98.2 | + 79.6 |
| Footwear (except slippers and house footwear) with textile uppers and outer soles of rubber | 682 | (1.6) | 1,096 | (1.7) | + 60.9 | + 61.6 |
| Footwear (except slippers and house footwear) with leather uppers and outer soles of rubber | 397 | (0.9) | 1,214 | (1.8) | +205.3 | +155.2 |
| Footwear (except slippers and house footwear), wholly or mainly of plastic materials | 397 | (0.9) | 1,052 | (1.6) | +165.2 | +161.0 |
| Footwear (except slippers and house footwear) with leather uppers and outer soles of leather or plastic materials | 325 | (0.8) | 458 | (0.7) | + 40.8 | + 70.9 |
| Crustaceans and molluscs, whether in shell or not, fresh, chilled, frozen, dried or preserved | 1,253 | (2.9) | 844 | (1.3) | - 32.7 | + 76.8 |
| Prawns and shrimps, fresh (live or dead), chilled or frozen | 1 203 | (2.8) | 800 | (1.2) | - 33.5 | + 84.6 |
| Watches and clocks | 552 | (1.3) | 959 | (1.5) | + 73.8 | + 83.2 |
| Electronic watches, digital (including LCD and LED) | 298 | (0.7) | 444 | (0.7) | + 49.1 | +137.1 |

| Principal commodity | Value of re-exports<br>1988<br>HK$Mn. | <br><br>% | <br>1989<br>HK$Mn. | <br><br>% | Growth rate of 1989 over 1988<br>% | Average annual growth rate in last 5 years (1984-1989)<br>% |
|---|---|---|---|---|---|---|
| Pottery | 643 | (1.5) | 794 | (1.2) | +23.5 | + 32.1 |
| Tableware and other articles of a kind commonly used for domestic purposes, of porcelain or china (including biscuit porcelain and parian) | 331 | (0.8) | 339 | (0.5) | + 2.2 | + 16.9 |
| Furniture and parts | 533 | (1.2) | 691 | (1.0) | +29.7 | + 29.6 |
| Furniture, n.e.s. of rattan (excluding plastic coated rattan) | 226 | (0.5) | 252 | (0.4) | +11.5 | + 28.8 |
| Vegetables, roots and tubers, preserved or prepared | 432 | (1.0) | 473 | (0.7) | + 9.4 | + 24.8 |
| Mushrooms, preserved or prepared, in airtight containers | 234 | (0.5) | 279 | (0.4) | +18.8 | + 29.4 |
| All commodities | 43,242 | (100.0) | 65,993 | (100.0) | +52.6 | + 49.7 |

Notes : (1) Figures in brackets denote percentage share in HK's total re-exports of China origin to the US.

(2) To facilitate matching of the commodity classification used in this table with the US import tariff categories, the SITC Rev. 2 Codes included under each commodity group in the table are listed in an Annex.

* As there is no trade in the commodity from 1984 to 1985, the average annual growth rate in last 3 years is presented.

Annex III

## Estimation of relative importance to the Hong Kong economy of re-exports of China origin to the United States

Step 1 : Hong Kong's re-exports of China origin to the United States in 1989 : HK$65,993 million

Step 2 : Since these goods have to be imported from China prior to re-exportation, total trade transaction involved is equal to

$$\text{HK\$65,993 million} \times \left(1 + \frac{1^{*}}{1.15}\right)$$

$$= \text{HK\$123,378 million}$$

* The re-export margin is assumed to be 15%. Thus the value of re-exports has to be deflated by 1.15 in order to arrive at the value of the original imported goods.

Step 3 : Express the value of total trade transaction derived in Step 2 as a proportion of Hong Kong's total trade (total exports plus total imports) in 1989:

$$\frac{\text{HK\$123,378 million}}{\text{HK\$1,133,291 million}} = 10.9\%$$

Step 4 : Number of persons employed in import/export trade in 1989 : 311 045

Step 5 : Total value-added contribution to GDP by the import/export trade in 1987 : HK$46,709 million (latest figure available).

Step 6 : Since the value of total trade in 1989 was 50% higher than in 1987, the value-added contribution to GDP by the import/export trade in 1987 has to be blown up by 50% to arrive at an estimated value of HK$70,064 million for 1989.

Step 7 : Applying the proportion obtained in Step 3 to the results in Step 4 and Step 6, it is estimated that 33 904 jobs and HK$7,637 million of value-added contribution to GDP in 1989 were in connection with this stream of re-export trade involving China as the origin and the United States as the destination.

Annex IV

## Assessment of the effect of non-renewal of MFN status for China by the US on the re-exports of Hong Kong

### Background

In 1989, re-exports at HK$346,405 million accounted for some 60% of the total exports of Hong Kong. During the same year, 92% of Hong Kong's re-exports to the US were of China origin, and they accounted for 19% of Hong Kong's total re-exports. Based on import statistics of the US for 1988, it is estimated that about 65% of the total imports of the US from China were re-exported through Hong Kong. Thus US economic sanctions on China, in particular the non-renewal of MFN treatment of all China's exports to the US, will have an adverse effect on the re-export trade of Hong Kong. This paper attempts to provide some quantitative assessment on this effect.

### Methodology

2. With the loss of MFN treatment, China's exports will be subjected to higher tariff in the US. This has the same effect of increasing the prices of China's products relative to other competitors in the US market. As a result, there will be a decrease in the demand for China's exports. Viewing this as the price effect on demand, its effect on China's exports will depend on, among other things, the extent of the price increase of China's products and the degree of competition of similar products from other exporting countries in the US market.

3. To assess the effect on Hong Kong's re-exports, major commodities of China origin exported to the US market through Hong Kong are identified based on their

trade values recorded in Hong Kong's external trade for 1989. For these commodities, statistics of the US imports from China and other major competitors are identified, including their values and quantities and percentage share in the US market.

4. Within the import statistics of the US, both the customs value (exclusive of tariff and c.i.f.) and the c.i.f. value (including cost, insurance and freight but excluding tariff) of the imports are available. These enable the import prices (as measured by the import unit value) of the commodities from different countries inclusive of tariff to be derived. The new import prices of China's products due to the imposition of the much higher non-MFN tariff rates upon a loss of MFN status can also be estimated.

5. By comparing the new import prices of China's products (under non-MFN tariff rates) with the import prices of other countries' products in the US market, and also the relative market share of these countries, the impact on China's exports to the US and hence the impact on Hong Kong's re-exports to the US of China origin are assessed as follows :

(a) Low impact - The impact will be low if the new import prices of China's products are still much below and thus very competitive relative to those of other competitors. Moreover, even though the price differential may become narrower, if China accounts for a substantial market share of US imports, other competitors may not be prepared or have the ready capacity to take up a much larger proportion of the market. In such circumstances, it is estimated that exports of China of these products to the US will decrease by only 20-30%.

(b) Medium impact - The impact will be of medium magnitude if the new import prices of China products are close to those of other competitors. Moreover, if China accounts for a not too small but not dominant share in the US market (i.e. the market is competitive), other suppliers will be able to take up much though probably not all of the market share which China may lose. In such circumstances, it is estimated that exports of China of these products to the US will decrease by 40-60%.

(c) High impact - The impact will be high if the new import prices of China products are much higher than those of its competitors. Moreover, if China's share in the US market is relatively small, other competitors will be able to take up most of the market share lost by China. In such circumstances, it is estimated that exports of China of these products to the US will decrease by 70-80%.

These assessments are by and large judgemental and are subject to many limitations, including in particular that of data availability and comparability.

6. It is not possible to carry out the assessment on every commodity, given that there are numerous commodities involved and some of them do not have unit of

quantity (and thus no unit value of imports can be derived). Thus only those commodities which have significant shares in the US-China trade and which have unit of quantity are selected. Where more than one commodity is selected for a commodity group, the impact on the commodity group as a whole is assessed on the basis of the average impact observed from the selected commodities. The estimated percentages of reduction in China's exports to the US, depending on the intensity of impact assessed for each commodity group, are then applied to the trade values of Hong Kong's re-exports to the US of China origin. These are then aggregated to derive the overall impact. Table 1 shows the estimated impacts by commodities and Table 2 shows the results of aggregation.

## Findings

7. Based on the above approach, it is estimated that as a result of the non-renewal of MFN status for China by the US, Hong Kong's re-exports to the US of China origin are likely to be reduced by 35% - 50%. The total re-exports of Hong Kong may thus be reduced by 7% - 9%. In terms of trade value, Hong Kong's re-exports will be reduced by HK$23 billion - HK$32 billion.

TABLE 1 ANALYSIS OF TARIFF EFFECT ON EXPORTS OF CHINA TO THE US MARKET
BY MAJOR COMMODITY GROUP BASED ON 1988 US IMPORTS STATISTICS

(US$)

| Commodity group | Ref. no. | Commodities selected for study on uv | % share in US market of China & major competitors | | Tariff rate (MFN) | Price of goods in US market (incl. MFN tariff) | New price of China's products | Effect of non-MFN status | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | | [indicates % share in the commodity group based on 1989 H.K. Trade Statistics] | Country | % share | | | | | |
| Toys, games, sporting goods, and baby carriages | 1. | Toys (excl. dolls), stuffed (NO.)<br>[10.4] | China | 26.8 | 0.068 | 1.198 | 1.86<br>(70% non-MFN rate) | Low | Price at non-MFN rate still much lower than competitors. |
| | | | Rep. of Korea | 54.2 | 0.068 | 2.819 | | | |
| | | | Taiwan | 13.6 | 0.068 | 2.952 | | | |
| | | | Thailand | 1.4 | 0.068 | 2.599 | | | |
| | | | All US imports | | 0.068 | 2.044 | | | |
| | 2. | Toys, plastic, with electric motor (NO.)<br>[9.8] | China | 22.7 | 0.068 | 3.345 | 5.17<br>(70% non-MFN rate) | Low | Price at non-MFN rate for China's products still lower than competitors. |
| | | | Hong Kong | 29.8 | 0.068 | 5.483 | | | |
| | | | Singapore | 20.6 | 0.068 | 23.718 | | | |
| | | | Rep. of Korea | 11.1 | 0.068 | 9.147 | | | |
| | | | All US imports | | 0.068 | 5.663 | | | |
| | 3. | Dolls, stuffed (NO.)<br>[3.2] | China | 64.5 | 0.068 | 1.112 | 1.72<br>(70% non-MFN rate) | Low | Price at non-MFN still very competitive. China has a very significant market share |
| | | | Malaysia | 10.0 | 0.068 | 1.898 | | | |
| | | | Taiwan | 8.4 | 0.068 | 2.259 | | | |
| | | | Hong Kong | 7.3 | 0.068 | 0.795 | | | |
| | | | All US imports | | 0.068 | 1.216 | | | |

|  |  |  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|
| Miscel. mft. articles | 4. | Wickerwork and articles of plaiting materials (NO.) [11.2] | China | 47.1 | 0.050 | 0.644 | 0.82 (40% non-MFN rate) | Low | China accounts for a significant market share. Price at non-MFN rate for China's products still lower than its major competitor of Phil. R. |
|  |  |  | Phil. R. | 29.5 | 0.050 | 1.301 |  |  |  |
|  |  |  | Taiwan | 5.6 | 0.050 | 0.675 |  |  |  |
|  |  |  | Mexico | 4.8 | 0.050 | 0.405 |  |  |  |
|  |  |  | All US imports |  | 0.050 | 0.810 |  |  |  |
| Outer garments, women's, textile fabrics (not knitted or crocheted | 5. | Blouses, silk (DOZ) [16.2] | China | 28.3 | 0.075 | 128.559 | 192.74 (65% non-MFN rate) | Medium | Price at non-MFN rate still competitive, though higher than the average. Other competitors have large market share. |
|  |  |  | Hong Kong | 45.2 | 0.075 | 109.520 |  |  |  |
|  |  |  | Rep. of Korea | 16.8 | 0.075 | 229.701 |  |  |  |
|  |  |  | Italy | 6.3 | 0.075 | 1260.530 |  |  |  |
|  |  |  | All US imports |  | 0.075 | 101.443 |  |  |  |
|  | 6. | Blouses, man-made fibres (DOZ) [13.2] | China | 13.3 | 0.050 | 89.020 | 130.98 (60% non-MFN rate) | High | Price at non-MFN rate much higher than competitors. Competitive market. |
|  |  |  | Rep. of Korea | 16.3 | 0.050 | 102.761 |  |  |  |
|  |  |  | Hong Kong | 12.9 | 0.050 | 109.973 |  |  |  |
|  |  |  | Taiwan | 10.2 | 0.050 | 96.028 |  |  |  |
|  |  |  | All US imports |  | 0.050 | 75.915 |  |  |  |
|  | 7. | Slacks and trousers, cotton (DOZ) [10.0] | China | 6.2 | 0.060 | 81.081 | 120.86 (60% non-MFN rate) | High | Price at non-MFN rate higher though close to major competitors, but much higher than the average. China has small market share. |
|  |  |  | Hong Kong | 38.8 | 0.050 | 106.927 |  |  |  |
|  |  |  | Taiwan | 6.5 | 0.050 | 114.053 |  |  |  |
|  |  |  | Brazil | 4.4 | 0.050 | 77.774 |  |  |  |
|  |  |  | All US imports |  | 0.050 | 91.898 |  |  |  |

TABLE 1 ANALYSIS OF TARIFF EFFECT ON EXPORTS OF CHINA TO THE US MARKET
BY MAJOR COMMODITY GROUP BASED ON 1988 US IMPORTS STATISTICS

(USD)

| Commodity group | Ref. no. | Commodities selected for study on uv | % share in US market of China & major competitors | | Tariff rate (MFN) | Price of goods in US market (incl. MFN tariff) | New price of China's products | Effect of non-MFN status | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | | [indicates % share in the commodity group based on 1989 U.S. Trade Statistics] | Country | % share | | | | | |
| Outer garments, knitted or crocheted | 8. | Jackets, sweater, women, textile materials (DOZ) [40.9] | China | 4.1 | 0.050 | 79.927 | 121.33 | High | Price at non-MFN rate higher than competitors |
| | | | Taiwan | 41.7 | 0.050 | 97.252 | (65% non-MFN rate) | | China has small market share |
| | | | Rep. of Korea | 29.0 | 0.050 | 92.545 | | | |
| | | | Hong Kong | 12.1 | 0.050 | 88.312 | | | |
| | | | All US imports | | 0.050 | 85.546 | | | |
| Clothing accessories, materials other than textile fabrics | 9. | Gloves (DPR) [27.0] | China | 79.0 | 0.050 | 8.691 | 13.01 | Low | Price at non-MFN rate higher than competitors |
| | | | Rep. of Korea | 7.8 | 0.050 | 11.684 | (60% non-MFN rate) | | but still competitive |
| | | | Hong Kong | 7.6 | 0.050 | 9.791 | | | China has a very large market share. |
| | | | Phil. R. | 2.6 | 0.050 | 11.999 | | | |
| | | | All US imports | | 0.050 | 9.032 | | | |
| Outer garments, men's, other than knitted or crocheted | 10. | Men's sla[illegible] and trouse[illegible], cotton (DOZ) [31.9] | China | 7.3 | 0.050 | 82.092 | 122.33 | High | Price at non-MFN rate much higher than competitors |
| | | | Hong Kong | 21.0 | 0.050 | 95.239 | (60% non-MFN rate) | | China has small market share |
| | | | Dominican Rep. | 10.9 | 0.050 | 69.309 | | | |
| | | | Mexico | 8.5 | 0.050 | 63.464 | | | |
| | | | All US imports | | 0.050 | 76.506 | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Radio-broadcast receivers | 11. Radio-broadcast receivers (NO.) [58.7] | China | 17.6 | 0.060 | 20.871 | 26.40 (35% non-MFN rate) | Low | Price at non-MFN rate still much lower than competitors. |
| | | Japan | 23.8 | 0.060 | 85.946 | | | |
| | | Malaysia | 14.5 | 0.060 | 27.356 | | | |
| | | Singapore | 13.5 | 0.060 | 47.724 | | | |
| | | All US imports | | 0.060 | 34.587 | | | |
| Sound and TV recorders | 12. Sound recorders, office use (NO.) [63.8] | China | 3.7 | 0.050 | 12.848 | 16.35 (35% non-MFN rate) | Medium | Price at non-MFN rate still much lower than competitors.<br>China has [illegible] small market share. |
| | | Japan | 59.8 | 0.050 | 81.452 | | | |
| | | Rep. of Korea | 13.8 | 0.050 | 28.074 | | | |
| | | Taiwan | 7.5 | 0.050 | 37.364 | | | |
| | | | | 0.050 | 44.487 | | | |
| Travel goods and handbags | 13. Handbags, plastic (NO.) [23.8] | China | 44.6 | 0.050 | 2.055 | 2.89 (40% non-MFN rate) | Low | Price at non-MFN rate still lower than competitors.<br>China has a large market share. |
| | | Taiwan | 34.9 | 0.050 | 2.810 | | | |
| | | Rep. of Korea | 14.7 | 0.050 | 3.600 | | | |
| | | Italy | 0.9 | 0.050 | 35.828 | | | |
| | | All US imports | | 0.050 | 2.423 | | | |
| | Handbags, leather (NO.) [30.3] | China | 18.5 | 0.050 | 7.560 | 9.96 (40% non-MFN rate) | Low | Price at non-MFN rate still much lower than competitors. |
| | | Rep. of Korea | 34.9 | 0.050 | 12.303 | | | |
| | | Italy | 23.4 | 0.050 | 43.760 | | | |
| | | Hong Kong | 3.8 | 0.050 | 11.616 | | | |
| | | All US imports | | 0.050 | 13.255 | | | |

TABLE 1 ANALYSIS OF TARIFF EFFECT ON EXPORTS OF CHINA TO THE US MARKET
BY MAJOR COMMODITY GROUP BASED ON 1988 US IMPORTS STATISTICS

(USD)

| Commodity group | Ref. No. | Commodities selected for study on uv<br>[indicates % share in the commodity group based on 1989 H.K. Trade Statistics] | % share in US market of China & major competitors<br>Country | % share | Tariff rate (MFN) | Price of goods in US market (incl. MFN tariff) | New price of China's products | Effect of non-MFN status | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| Household electrical equipment | 15. | Electric hair dressing apparatus (NO.) [43.8] | China | 69.5 | 0.039 | 6.313 | 8.12<br>(35% non-MFN rate) | Medium | Price at non-MFN rate higher than most competitors.<br>China has a large market share. |
| | | | Hong Kong | 15.8 | 0.039 | 6.142 | | | |
| | | | Taiwan | 11.0 | 0.039 | 6.321 | | | |
| | | | Italy | 1.6 | 0.039 | 10.232 | | | |
| | | | All US imports | | 0.039 | 6.397 | | | |
| Footwear | 16. | Footwear, textile uppers (PR) [22.2] | China | 18.8 | 0.050 | 1.465 | 1.90<br>(40% non-MFN rate) | Medium | Price still competitive, though higher than the average.<br>Other competitors have large market share. |
| | | | Rep. of Korea | 48.8 | 0.050 | 5.286 | | | |
| | | | Taiwan | 14.7 | 0.050 | 4.345 | | | |
| | | | Mexico | 8.7 | 0.050 | 1.474 | | | |
| | | | All US imports | | 0.050 | 2.070 | | | |
| | 17. | Footwear, leather uppers (PR) [24.6] | China | 2.8 | 0.050 | 6.832 | 8.98<br>(40% non-MFN rate) | Medium | Price still competitive and lower than the average.<br>China has small market share. |
| | | | Brazil | 31.8 | 0.050 | 8.542 | | | |
| | | | Italy | 27.9 | 0.050 | 20.311 | | | |
| | | | Spain | 13.1 | 0.050 | 19.769 | | | |
| | | | All US imports | | 0.050 | 12.188 | | | |

|  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|
| Miscel. articles of plastic materials |  |  |  |  |  | Assumed to be Medium | (Remark : no unit value) |
| Telecom. equipments |  |  |  |  |  |  |  |
| Crustaceans and molluscs |  |  |  |  |  |  |  |
| Watches and clocks |  |  |  |  |  |  |  |
| Pottery |  |  |  |  |  |  |  |
| Furniture and parts |  |  |  |  |  |  |  |
| Vegetables |  |  |  |  |  |  |  |

Source : US General Imports and imports for consumption, December 1988 issue, US Bureau of the Census.

Notes :

(1) Customs import value refers to the price actually paid for merchandise when sold for exportation to US, excluding US import duties, freights and insurance

(2) The c.i.f. import value consists of the Customs value, plus freight and insurance.

TABLE 2 ASSESSMENT OF THE EFFECT OF NON-RENEWAL OF MFN STATUS FOR CHINA BY US ON THE RE-EXPORTS OF HONG KONG

| Commodity group | 1989 RX of China origin to US market | | Effect of non-MFN status on China's imports | % reduction to RX | | Reduced RX value | |
|---|---|---|---|---|---|---|---|
| | | | | Pessim. scenario | Optim. scenario | Pessim. scenario | Optim. scenario |
| | HKD Mn | % share | | % | % | HKD Mn | HKD Mn |
| Toys, games, sporting goods, baby carriages | 13 666 | 20.7 | Low | 30 | 20 | 4 099.8 | 2 733.2 |
| Miscel. mft. goods | 3 434 | 5.2 | Low | 30 | 20 | 1 030.2 | 686.8 |
| Miscel. articles of plastic materials | 1 552 | 2.4 | Medium | 60 | 40 | 931.2 | 620.8 |
| Outer garments, textile, women's | 4 199 | 6.4 | High | 80 | 70 | 3 359.2 | 2 939.3 |
| Outer garments, knitted or crocheted | 3 439 | 5.2 | High | 80 | 70 | 2 751.2 | 2 407.3 |
| Clothing accessories, not textile fabrics | 1 482 | 2.2 | Low | 30 | 20 | 444.6 | 296.4 |
| Outer garments, men's | 1 444 | 2.2 | High | 80 | 70 | 1 155.2 | 1 010.8 |
| Radio-broadcast receivers | 3 796 | 5.8 | Low | 30 | 20 | 1 138.8 | 759.2 |
| Telecom. equipments | 2 073 | 3.1 | Medium | 60 | 40 | 1 243.8 | 829.2 |
| Sound and TV recorders | 1 431 | 2.2 | Medium | 60 | 40 | 858.6 | 572.4 |
| Travel goods, handbags | 4 498 | 6.8 | Low | 30 | 20 | 1 349.4 | 899.6 |
| Household electrical equipments | 4 185 | 6.3 | Medium | 60 | 40 | 2 511.0 | 1 674.0 |

|  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|
| Footwear | 469286 | 7.25 | [illegible] | 600 | 400 | 2295356.6 | 1199702.44 |
| Garments & textiles | 8844 | 11.33 | [illegible] | 600 | 400 | 5306.4 | 3537.6 |
| Watches and clocks | 9592 | 11.55 | [illegible] | 600 | 400 | 5755.4 | 3836.8 |
| Jewelry | 7894 | 11.22 | [illegible] | 600 | 400 | 4736.4 | 3157.6 |
| Furniture & parts | 6981 | 11.00 | [illegible] | 600 | 400 | 4188.6 | 2792.4 |
| Vegetables | 4729 | 22.77 | [illegible] | 600 | 400 | 2837.4 | 1891.6 |
| Total of the above | [illegible] | 681.77 |  |  |  | [illegible] | [illegible] |
| Estimate of percentage reduction in RX of China origin to US |  |  |  |  |  | 48.44% | 32.15% |
| Total RX of China origin to US | [illegible] |  |  |  |  |  |  |
| Estimate of total reduction in RX of China origin to US |  |  |  |  |  | 33199846.00 | 23311531.11 |
| Total Re-exports of Hong Kong | [illegible] |  |  |  |  |  |  |
| Estimate of percentage reduction in total Re-exports of Hong Kong |  |  |  |  |  | 9.22% | 6.75% |

Note : The effect of non-MFN Status on China's exports into the USA is based on the assumption of the trade pattern of China's exports to U.S. (see Table 1)

## EXHIBIT 2
## AmCham Damage Assessments

a. Trade
b. Employment

THE AMERICAN
CHAMBER OF COMMERCE
IN HONG KONG

美國商會

### Estimate of Damage to Hong Kong

AmCham derives its estimate of potential loss of business suffered by Hong Kong firms (including those owned by Americans and non-Americans) over a twelve-month period as follows:

| | |
|---|---|
| (1) Value of Chinese products reexported by H.K. (1989): | USD 8.5 billion |
| (2) Value of imported raw materials and components associated with (1) | USD 4.9 billion |
| (3) Middlemen contracts | |
| a. U.S. exports to China of goods other than (2) handled by U.S. and other firms in H.K. | USD 1.65 billion |
| b. Chinese exports to U.S. handled by H.K. middlemen | USD 1.0 billion |
| | --------------- |
| Total | USD16.05 billion |

of which a lea [illegible] 0 percent will be lost, or, USD8-9 billion in business (ass [illegible] ig moderate growth in 1990).

1030 SWIRE HOUSE HONG KONG TEL 5260165 TELEX 83664 AMCC HX FAX 8101289
KINDLY REPLY TO GPO BOX 355, HONG KONG

THE AMERICAN
CHAMBER OF COMMERCE
IN HONG KONG

美國商會

# AMCHAM SURVEYS ON MFN LOSS

AmCham has done two surveys in an attempt to gauge the impact of China's MFN loss on our members. It should be stressed from the outset that our chamber is not a professional survey research organisation, and we do not claim methodological perfection. The surveys are indicative of trends, however, and do reinforce perceptions of executives interviewed on the subject by AmCham officers.

For both surveys, AmCham sent out questionnaires to all of its corporate members (1,121). From previous work, we estimate the total employment of Hong Kong staff by these members to be 250,000.

The first survey, conducted in May, attracted 100 responses (8.9% of the sample). Approximately 60 percent of those responding indicated that their businesses would be negatively affected by China's loss of MFN; 44 percent indicated that they would consider staff reductions.

The second survey, conducted in June, attracted 158 responses (14.1% of the sample). Approximately 43 percent of those responding stated that they would reduce staff if MFN were taken away from China. Of those 43 percent of respondents who would reduce staff, the staff reduction would equal on average about 28 percent of their total workforce.

Roughly extrapolating from these numbers, of the 250,000 total staff members employed by AmCham member companies in Hong Kong, 107,500 would work for employers who would reduce staff if MFN were taken away from China. If these employers reduced staff levels by the average 28 percent indicated by the survey, 30,100 jobs would be lost. AmCham recognises that this estimate lacks scientific precision, but believes that it indicates the magnitude of the problem.

It is important to bear in mind that the AmCham surveys focused on corporate members of the American Chamber only. They do not take into account the impact on Hong Kong's total workforce of 2.8 million. The Hong Kong government has estimated that at least 20,000 jobs would be lost if MFN were removed from China. Based on the indicative results of our surveys, AmCham believes the Hong Kong government's figure on job losses is probably too low and that the employment loss would be much greater.

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**EXHIBIT 3**
**Testimonial(s)**

*ODYSSEY*
*INTERNATIONAL*
*LIMITED*

*Odyssey Centre*
*13-15 Yuen Shun Circuit, Shatin,*
*New Territories, Hong Kong*
*Tel 6377838*
*Fax (852) 6365622 (G3)*
*Telex 30783 ODSSY HX*
*Cable ODYSSEY HONG KONG*

June 14, 1990

Mr. John Kamm
President
The American Chamber of Commerce in Hong Kong
1030 Swire House, Central
Hong Kong

Dear Mr. Kamm,

RE: MFN STATUS FOR CHINA

Please convey the following to members of Congress during your June visit to Washington.

The deleterious effect of withdrawing MFN status from China might be more serious than you have suggested. It is our educated opinion that the reduction of Chinese exports to the U.S. would be closer to 70% than the 50% figure you have mentioned. The accompanying loss of revenues in both American and non-American companies in Hong Kong and China would be catastrophic. Talks with senior government officials in Beijing lead us to believe that China might retaliate by cutting off nearly all imports of U.S. products. While the economic impact would be damaging to all parties, the most detrimental result of withdrawing MFN status would be the alienation and abandonment of the average urban Chinese citizen, who, after a long period of suspicion and distrust, has warmly embraced the U.S. as a "Friend" during the last ten years.

Odyssey International Limited (Odyssey) is an American owned manufacturing company headquartered in Hong Kong. The company specializes in the design and production of high quality, labor-intensive apparel and soft goods for the sports and outdoor industry. Its products include skiwear, rugged outdoor clothing, tennis and golf apparel, expedition clothing and mountaineering equipment, including tents and sleeping bags. Odyssey's customers include L.L. Bean, Eddie Bauer and Land's End. Total sales of manufactured goods exceed US$200 million.

In addition to the manufacturing company, Odyssey, through a related company, Odyssey International (Trading) Ltd., sells US$160 million worth of U.S. and Canadian chemicals and fertilizers to China.

Founded in 1978, Odyssey has based its Asian manufacturing strategy around China, operating in nine provinces. By concentrating on quality, Odyssey has grown to be one of the world's largest manufacturers in the sports and outdoor industry. Many of its raw materials are sourced in the U.S. Among its important suppliers are Burlington, DuPont, 3M and W.L. Gore. Odyssey is Gore's largest customer for its Gore-Tex fabrics.

Mr. John Kamm
June 14, 1990

In 1988, Odyssey's success in China enabled it to acquire two U.S. outdoor companies, the North Face and Sierra Designs. In addition, Odyssey has established U.S. sales, service and retail operations. Total U.S. employees now exceed 800 persons. Plans to establish more American manufacturing facilities are underway and 2,000 to 2,500 employees are expected to be hired in the U.S. during the next three years.

Hong Kong and China are the backbone of Odyssey's business. Over 700 employees work directly for Odyssey in Hong Kong, while over 20,000 are employed indirectly in China, largely through contractors located in south and coastal provinces. It is clear that the withdrawal of MFN status from China would endanger the existence of Odyssey as a going concern. The company estimates that the effect of significantly higher duty rates would cause 75% of its production in China to disappear. It is difficult to see how Odyssey could continue operating. Jobs on both sides of the Pacific would be lost. The effect would be compounded by the thousands of American, Hong Kong and Chinese companies which would suffer the same fate.

While it is not easy to measure the total economic impact to the nations involved of withdrawing MFN from China, it is a fact that very significant losses would occur. What is not easy to measure is the loss of trust, faith and friendship that have developed between the American and Chinese people. If the travel, educational, cultural, political and, most importantly, trade contacts between the two countries diminish, as they surely would after the withdrawal of MFN, and if the Chinese media blames the U.S. for the loss of jobs and revenue, as it surely would after the withdrawal of MFN, then America would lose much of the precious ground it has gained in recent years with the world's most populous country.

Sincerely yours,

William W. Simon
Managing Director

WWS/vs

**KADER INDUSTRIAL COMPANY LIMITED**
22, KAI CHEUNG ROAD, KOWLOON BAY, KOWLOON.
TELEX: 52375 KADER HX FAX: 3-7961126
TEL: 3-7981688

13 June 1990

Mr John Kamm
American Chamber of Commerce
Room 1030 Swire House
Chater Road
Hong Kong

Dear John

I understand the American Chamber of Commerce has launched a lobbying campaign against the removal of MFN status from China and am writing to vow my strong support.

I am concerned about the sentiments in the U.S.A. to remove the 'most favoured nation' status of China since it will have serious damaging effects on Hong Kong's future. The U.S. Government has been given genuine support to Hong Kong for maintenance of status quo beyond 1997. Since normalization of diplomatic relations with China in 1970s, the direction of U.S.A. enterprises and corporations investment in China from 1980 onwards have also prompted the Hong Kong manufacturers to establish factories in China to re-export goods manufactured in China to U.S.A. The end result of this investment direction is that the U.S. consumers have the benefits of enjoying stable and relative inexpensive consumer merchandises in the past 10 years such as the toys manufactured by our company. Removal of the MFN status from China will paralyze immediately Hong Kong's economic growth since Hong Kong has been very much economically linked to China and U.S.A. in terms of re-exports and exports respectively.

We people in Hong Kong do not believe the U.S.A. should take the move as effective sanctions can be in other forms. U.S.A. has been advocating free international trade without restrictions. This action is unquestionable a move against the free trade spirit. Hong Kong is a classic example of free port and it should not be the intention of U.S. government to penalize Hong Kong for practicing free trade policy.

During the past 10 years, Hong Kong has been bringing into China the ethics and systems of incentive so much valued in the western world. Such free enterprise spirit is now beginning to influence the ideology of communism in the mind of the Chinese People. They have been very receptive

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to these western values and the proposed economic sanction will push China to the corner and turn against the world trend of economic co-operation. Slow and steady political pressure internationally against China will force China to modify its policies gradually to gear up to the international standards of handling issues of international importance.

As an illustration of direct impacts to us, a toy manufacturer principally for American markets. We estimate about 60% (US$70 million) of our turnover will be reduced if MFN is removed from China. Most American toy companies will be buying from elsewhere where the duties are still in the range of 3.5% to 8% with MFN status. Without the MFN status, the product manufactured by us in China will be subject to duties of over 70% which American consumers cannot accept and henceforth American companies will go elsewhere for purchase of merchandise. US$70 million ex-factory prices is equivalent to 16 million pieces of toys exported from China assuming an average cost of US$4 per piece of toys FOB price.

At present, it is estimated that 500,000 workers in China are directly and indirectly related to toy manufacturing activities and close down of toy factories in China due to loss of MFN status will undoubtedly create the problem of placement of these workers into other jobs. Social unrest will definitely be generated by widespread unemployment in China which totally defeat the purpose of gradual process of democratisation in China that the world is hoping China to head towards it.

These figures are only based on information available to our company and I am sure that the Toy Council will be able to supply you the industry wide statistic supporting my argument.

In any event, I am very thankful to you to take up this important task to defend the interest of Hong Kong for the continuance of the MFN status in China.

Yours sincerely

Dennis H.S. Ting
Chairman

開達實業有限公司
九龍九龍灣啓祥道22號
電話：3-7981688

## EXHIBIT 4
## Hong Kong Radio Interview, June 4, 1990

Transcript of the Exchange between
Mr. Martin Lee and Mr. John Kamm
Regarding June 4 and MFN
(Radio-Television Hong Kong, June 4, 1990)

Host: Continuing with our coverage of the anniversary of the Peking Massacre we have in our central studio Mr. Martin Lee, Legislative Councillor and Chairman of the United Democrats of Hong Kong, and Mr. John Kamm, President of the American Chamber of Commerce. Good morning, gentlemen.

Lee: Good morning.

Kamm: Good morning.

Host: Mr. Lee, the date June 4th certainly gave rise to an immense amount of emotion in Hong Kong. Looking back on it, it will never be forgotten by yourself and many other hundreds of thousands of people here but would you like to tell us what you think the lasting significance of June 4th will be?

Lee: A lot of people now in China and in Hong Kong, I mean those in the government, would like the people of Hong Kong to forget what happened on the 4th of June last year and indeed what preceded it in 1989. The massive turn out yesterday quite clearly shows that the people of Hong Kong will not forget and they cannot forget. I think in the long term there is great significance to the great numbers turning up yesterday and that is that the people of Hong Kong will not accept the policy of appeasement chosen by the British government. I think the Chinese leaders must realise that if they want to have a smooth transfer of sovereignty in 1997 then they must change the present policy adopted towards Hong Kong which is the policy of intimidation -- intimidating the people of Hong Kong into submission. What happened yesterday clearly shows that that is not the correct policy to be adopted. The Chinese leaders should try every way possible to win back our hearts and that is not to be done and cannot be achieved by intimidation. If you look back over the last year, what has the Chinese government really done in that direction? Have they ever tried to say or do anything which can be said to be calculated to win back confidence?

Host: On the other hand could you argue that the Chinese government's attitude as being worse since June 4th towards Hong Kong than it was beforehand that in fact that by Hong Kong's reaction to what happened on June 4th Hong Kong did bring down a nest of troubles upon its head?

Lee: Well, the emotions expressed in Hong Kong are not unique because these emotions are expressed by all Chinese people all over the world and the only difference is that we are nearer to China than the rest of the Chinese overseas and we do not have a government which has a backbone.

Host: Mr. Kamm, Mr. Lee a moment ago referred to people in the government and elsewhere who would like to forget the events of June 4th, in a way could we use that to describe the attitude of the business community or parts of it perhaps reflected in your own attitude as expressed in Washington during the hearings of the MFN talks that the main point is to keep food in people's bellies and it's no good continuing with policies against China if this is going to break rice bowls. Do you feel in any way that you were the object of what Mr. Lee was saying then, that you need to defend your attitude?

Kamm: First of all, I'd like to express on behalf of the American community here and the American Chamber of Commerce our sympathy and profound feelings with the people of Hong Kong and the Chinese people around the world as they mourn this day of national tragedy. I hope that I wasn't included in the ranks of those who seek to forget what happened on June 4th and I don't think that the debate that is going on in Congress serves to make people forget. Quite to the contrary. The debate that is going on is precisely about how we move forward and how we try to undo some of the terrible things that have happened. All we are arguing is the taking MFN treatment away from China, with the terrible consequences that that act would have for Hong Kong, is not the correct path forward. That's all we are saying. We are not in any way condoning what has happened. If you read my testimony before Congress you will see that I used very strong language in condemning what happened on June 4th.

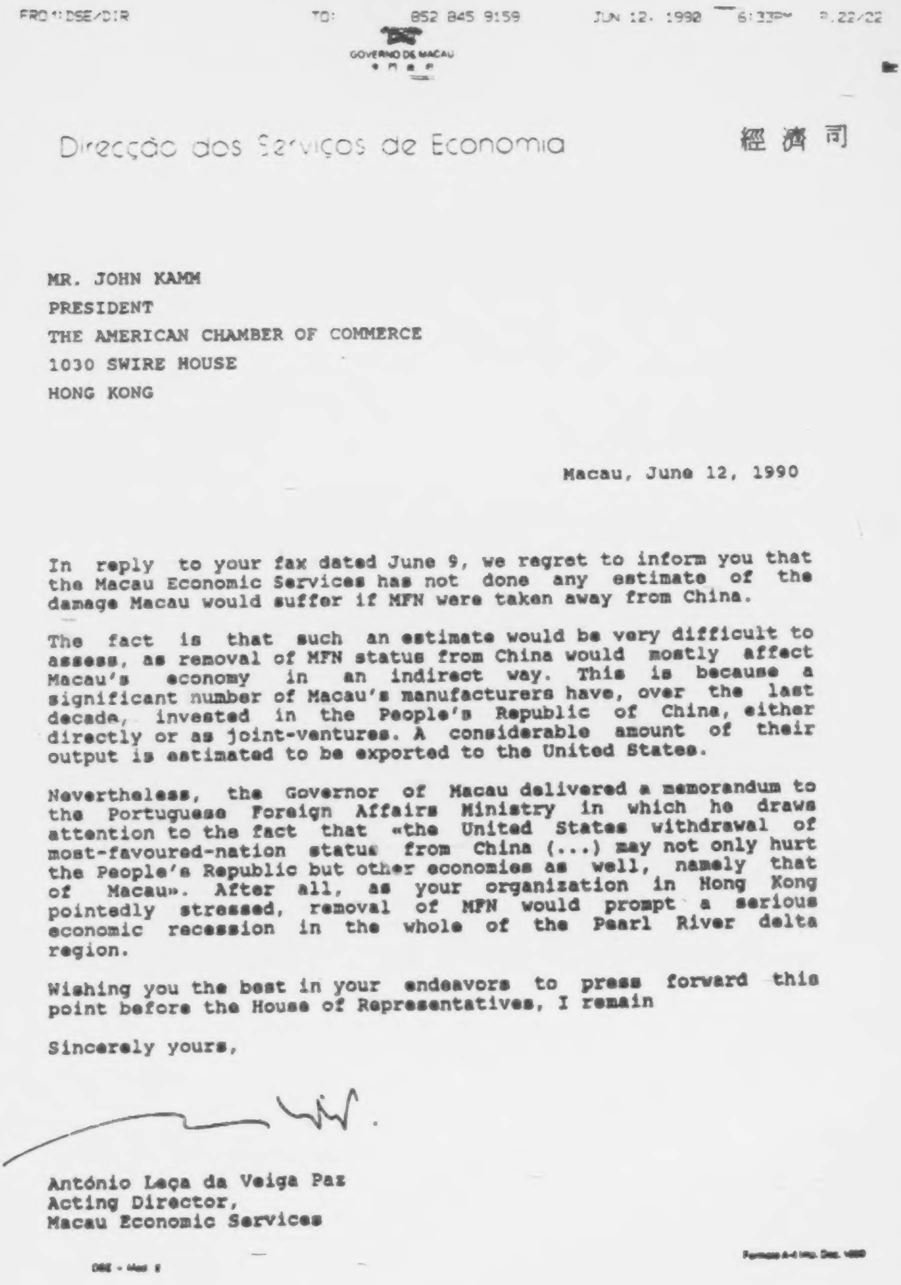
Host: Yes, but the argument against that is that it's all very well to use strong language, people have used strong language before. The Chinese just cock a snook at that. Language, you know, words...sticks and stones may break their bones, but words will never hurt them. Don't you really feel that the Chinese government ought to be reminded very strongly of the way people feel by something more concrete than just words?

Kamm: Well, that's precisely the problem. What is that something? How far do you go? What's enough punishment? That's just what the debate is all about. Do you break diplomatic relations? Where do you stop? What we are saying is that in considering what acts governments and people around the world take in reaction to this tragedy that they take into account at the same time the collateral damage that it does to the friends and allies of the democracy and reform movement in China.

Host: Alright, let's see if Mr. Lee has an answer to that. At the time or shortly afterwards, I think you were calling for economic sanctions against China but then you withdrew that recommended course. What do you think that the so-called spineless British government and the American government -- I think perhaps you might tar them with the same brush -- what should they do without breaking all our rice bowls?

Lee: You can say that a year is a very long time in politics. That government has withstood all pressures during that year. I think the pity was perhaps that not too much pressure was exerted on China at the time. Now, one year later, we are looking at Hong Kong more than anything else and that is my position today. I cannot see how the removal of the MFN status in China would not hurt Hong Kong and hurt Hong Kong badly, and that is the only difficulty that I see because I put Hong Kong first and foremost in my mind. Perhaps that is a selfish way of looking at it but I just cannot do otherwise. I have not heard many people in Hong Kong at all who have said, inspite of what they feel about the past year, that the U.S. government should remove that status from China.

## EXHIBIT 5
## Letter Fom Macau Government



FROM:DSE/DIR TO: 852 845 9159 JUN 12. 1990 6:33PM P.22/22

GOVERNO DE MACAU

Direcção dos Serviços de Economia 經濟司

MR. JOHN KAMM
PRESIDENT
THE AMERICAN CHAMBER OF COMMERCE
1030 SWIRE HOUSE
HONG KONG

Macau, June 12, 1990

In reply to your fax dated June 9, we regret to inform you that the Macau Economic Services has not done any estimate of the damage Macau would suffer if MFN were taken away from China.

The fact is that such an estimate would be very difficult to assess, as removal of MFN status from China would mostly affect Macau's economy in an indirect way. This is because a significant number of Macau's manufacturers have, over the last decade, invested in the People's Republic of China, either directly or as joint-ventures. A considerable amount of their output is estimated to be exported to the United States.

Nevertheless, the Governor of Macau delivered a memorandum to the Portuguese Foreign Affairs Ministry in which he draws attention to the fact that «the United States withdrawal of most-favoured-nation status from China (...) may not only hurt the People's Republic but other economies as well, namely that of Macau». After all, as your organization in Hong Kong pointedly stressed, removal of MFN would prompt a serious economic recession in the whole of the Pearl River delta region.

Wishing you the best in your endeavors to press forward this point before the House of Representatives, I remain

Sincerely yours,

António Leça da Veiga Paz
Acting Director,
Macau Economic Services

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**EXHIBIT 6**
**Opinion by Prof. Ezra Vogel**

## Opinion on the Impact of Removal of China's Most Favored Nation (MFN) Status on Guangdong Province

by Ezra F Vogel

The most hopeful signs for China's making a smooth transition to a more open market economy and a freer political climate in the last decade have come from Guangdong. This province of 60 million has led the country, not only in foreign trade and investment, but in innovations in the market and in openness to the outside world. Its success in bringing life to a moribund economy and raising the standard of living made it a model for the rest of China, not only in official circles, but in the minds of people in all parts of China.

Since the Tiananmen Square killings, it and the rest of coastal China have faced threats from two directions. One is from Beijing, the other from the U.S.. Beijing's effort to tighten controls since the Tiananmen incident threatens the freedom of local people to carry on economic activities and keep up contacts with the outside world. Beijing tried to remove popular local officials. For months rumors were circulating in Guangdong and Hong Kong that Beijing had been trying to "promote" Guangdong's reform-minded governor Ye Xuan-ping to a higher position in Beijing and to replace him and his associates with tough-minded leaders who would clamp down on some of the free-wheeling activities. Some central leaders have been warning Guangdong in their prouncements that they must take a harder line in restricting their economy and their press.

Yet, by and large, Guangdong has weathered the threat from Beijing well. Nearly all the top reformers remain in power, and Beijing recently affirmed that critical components of "the special policy" towards Guangdong -- foreign exchange retention and relatively high spending approval limits -- remain in force. The border with Hong Kong is still very open. Ordinary Guangdong residents still regularly watch Hong Kong's TV and listen to Hong Kong's radio. Political discussion is widespread, and focuses on the need to maintain local prosperity.

Guangdong also faces the threat of being isolated by the United States. If the Congress of the United States succeeds in overturning President Bush's recommendation to extend the "most favored nation" (MFN) status for China. Guangdong Province will suffer deeply. The most recently available statistics reveal that of Guangdong's total value of agricultural and industrial output, roughly 12 percent is devoted to production for the U.S. market. Loss of MFN would result in hundreds of thousands of lost jobs in China's most open and capitalistic province.

In the 1950s, during the Korean War, when the United States began a blockade of China trade, no part of China suffered more than Guangdong and the other coastal areas that were part of the international community. Their economy stagnated and even retrogressed, and people who formerly took part in foreign trade were without means of livelihood. Even worse, people there were cut off from outside ideas. Many were killed and many more were with foreign ideas and foreign friends were subjected to continuing purges. In severity and sheer numbers, they, far more than the targets of Senator Joseph McCarthy, were the true victims of the closing of China.

It is impossible now to close completely the borders between China and the outside world, but if Hong Kong and the United States weaken their ties, it sets back the efforts of reformers who want to adapt to the outside world and improve their own livelihood and their own freedoms. The coastal areas of China need Hong Kong just as Eastern Europe needs Western Europe. Hong Kong in turn needs to have access to America's markets.

Guangdong has suffered in the last year. Tourism is down, foreign remittances are down, investments are down, economic growth is down. But the economy continued to grow in 1989 and is struggling for a respectable gain in 1990, in good part because of the expansion of exports to Hong Kong and, thence, to the United States.

The hard fact is that the future of Hong Kong depends less on measures for the development of democracy in the territory than on the overall business and political climate in China, particularly in the closest part of China, Guangdong. The best way to ensure the future vitality of Hong Kong is to do everything we can to keep Guangdong and the rest of coastal China open to the outside.

The brutality of the crackdown in China must be condemned. We should use sanctions that help discourage those who abuse human rights. But in choosing our means to oppose human rights abuses, it is vital that the United States not undertake acts which hurt our friends and allies in China and Hong Kong. To use sanctions that blindly hurt both friends and enemies, indeed that hurt our friends more than our enemies, is counterproductive to the cause of reform in China. Stripping China of MFN is one such sanction. Congress should support the President's recommendation.

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Ezra F Vogel is Clarence Dillon Professor of International Affairs at Harvard University.

**EXHIBIT 7**
**Asian Wall Street Journal Article, May 28, 1990**

# Guangdong Shows Need for MFN Status

## *Province Is Huge Source of Labor, Revenue for China and Hong Kong*

By ADI IGNATIUS
*Staff Reporter*

NANHAI COUNTY, China – Kevin Chen, a foul-mouthed Cantonese shoemaker in south China's bustling export belt, is an apt symbol of why President George Bush wants the U.S. Congress to agree to extend trade benefits to China.

Mr. Chen is a true child of China's decade of economic reform. The 38-year-old former farmhand is the director of the Nanhai Pingzu Shoe Factory, which makes a million pairs of Adidas running shoes a year. Most of his 1,600 workers are fresh off the farm as well – some of the millions flocking to new business opportunities that abound in the export-driven economy of Guangdong province.

"You Americans are always talking about protecting the human rights of the Chinese people," says Mr. Chen, peppering his observations with colorful, but unprintable, Cantonese slang. "Well, Congress better think about this issue good and hard. If China loses most-favored-nation trade status, I'll have 1,600 people out of work, back on the farms looking for something to do. Is that protecting Chinese human rights?"

CHINA
GUANGDONG
Canton
Hong Kong
South China Sea

Mr. Bush, who seems to share Mr. Chen's concerns, last Thursday extended for one year China's MFN status, which guarantees the lowest possible tariffs for Chinese exports. Depriving Beijing of the benefit would have pushed up tariffs steeply, causing an export-revenue loss that China estimates at $10 billion a year. Congress can block the move, but barring a major human-rights blunder by Beijing, the U.S. legislature isn't likely to muster the two-thirds vote that would be required.

Nonetheless, as Congress begins pondering the president's recommendation, there is sure to be fierce debate. The China sanctions question is double-edged. On the one hand, many congressional critics of Beijing feel an impulse to deprive China of preferential trade terms to penalize its leadership for the killing of democracy demonstrators last June 4, as well as for its repressive human-rights policies and partial backtracking on economic reforms.

But taking away the MFN status also would surely hurt such economic pioneers as Mr. Chen, who have been among the major proponents and beneficiaries of China's move away from Stalinism. Moreover, stripping China of trade benefits would hurt the U.S., Hong Kong and other nations with companies that have invested heavily in export and export-processing ventures in China.

Consider the case of Nike Inc. For years, the Oregon-based sports-shoe maker struggled trying to set up a manufacturing operation in China. Despite Nike's huge initial investments, the factories it contracted from couldn't meet production targets. A big percentage of shoes didn't meet Nike's quality standards and had to be scrapped.

"In the early stages, we did a study that showed it was costing us practically $100,000 per finished pair," says Richard Willing, production director for China.

But Nike's patience has paid off. Its five factories in south China are now making

*Please Turn to Page 9, Column 4*

# Low U.S. Tariffs Crucial to Guangdong

*Continued From First Page*

650,000 pairs a month, and Nike hopes to export $100 million of shoes from China next year. Moreover, the China operation has just started turning a profit. "We're making money, but it's taken 10 years to get there," says Mr. Willing.

The debate over China's trade status shows how fragile Nike's hard-won success is. If Congress surprises everyone and denies China beneficial trade terms, Nike's business here would be severely threatened. Tariffs on some shoes would rise to 33% from the current 13%, making it unprofitable again to continue producing in China.

Like other manufacturers, Nike has a contingency plan that, if the U.S. ultimately denies China favored trade status, would shift much of the company's China operation to Indonesia and Thailand. Many of the 8,000 Chinese employed making Nike shoes would be out of work.

The American appetite for Chinese-made goods has been insatiable in recent years. The U.S. also is a market that wouldn't be easy to replace. Trade experts note, for example, that China's export markets in Europe are virtually saturated. China's exports to the U.S. last year totaled $11.99 billion, up 43% from a year earlier. Despite talk of sanctions, exports this year are still booming; in the first two months, they jumped 35%. Most of the goods are transshipped through Hong Kong, whose companies also would stand to lose heavily if the U.S. takes away China's trade benefits.

One man who has learned the value of the Hong Kong link is H.P. Chan, general manager of Fei Xing Household Electrical Appliances Manufacturing Co., an enterprise making electric fans in Nanhai county, an hour's drive from Canton.

Outside the sprawling factory grounds are stacked thousands of boxes of ceiling fans ready to be loaded into several giant container trucks. The trucks will move the goods to Hong Kong, a three-hour drive away, and then the fans will be re-exported to the U.S. There they will be sold under the brand names of local makers in Florida, Texas and Pennsylvania; customers in the U.S. won't even know they've bought Chinese. Last year, Fei Xing earned China $8.7 million in foreign exchange from its exports to the U.S.

"In the last 10 years, we've enjoyed very good relations with the U.S. I even had the boss of K mart (a big U.S. retail chain) here – many times!" says Mr. Chan. "But if the U.S. ever cuts us off, we'll figure something else out to survive. Maybe we'll sell to the Soviet Union."

In this part of China, 1,600 kilometers from Beijing, the austere capital, politics is a dirty word. Like the Hong Kong businessmen with whom Guangdong's manufacturers have developed close links, the only game in town is making money.

Mr. Chen, whose factory produces Adidas sports shoes, already has been burned once by adverse international reaction to last year's killings in Beijing. Prior to June 4, his sole client was Reebok International Ltd. But the U.S. company decided suddenly to pull out of its contract – "some garbage about human rights," Mr. Chen says.

Reebok's shift saddled the factory with a loss of $500,000, he says, adding that his company still doesn't know what to do with the material for 170,000 pairs of Reeboks it imported last year. The factory avoided financial catastrophe at the end of last year, when it won an order to become a regular supplier of Adidas.

"If the U.S. changes its trade policy, we'll be hit again," says Mr. Chen, still swearing under his breath. "When that happens, I might just shut the factory down and raise mice."

## EXHIBIT 8
## Provincial Imports and Exports, 1988

China's Regional Exports and Imports in 1988

(Value: US$ Million)

| Province/Municipality/ Autonomous Region | | Exports | (% Change) | Imports | (% Change) |
|---|---|---|---|---|---|
| Guangdong | ( 廣東 ) | 7,784 | + 38 | 5,110 | + 41 |
| Shanghai | ( 上海 ) | 4,576 | + 10 | 2,640 | + 44 |
| Liaoning | ( 遼寧 ) | 3,798 | + 1 | 580 | + 33 |
| Shandong | ( 山東 ) | 2,982 | + 1 | 890 | + 40 |
| Jiangsu | ( 江蘇 ) | 2,277 | + 11 | 815 | + 40 |
| Tianjin | ( 天津 ) | 1,703 | + 14 | 596 | + 20 |
| Zhejiang | ( 浙江 ) | 1,560 | + 18 | 400 | + 87 |
| Hebei | ( 河北 ) | 1,534 | + 5 | 232 | + 1 |
| Fujian | ( 福建 ) | 1,362 | + 61 | 745 | + 70 |
| Hubei | ( 湖北 ) | 1,175 | + 24 | 292 | + 82 |
| Beijing | ( 北京 ) | 999 | + 15 | 384 | + 23 |
| Heilongjiang | ( 黑龍江 ) | 937 | + 18 | 303 | +101 |
| Sichuan | ( 四川 ) | 850 | + 19 | 162 | + 3 |
| Henan | ( 河南 ) | 757 | + 17 | 99 | + 1 |
| Hunan | ( 湖南 ) | 638 | + 3 | 195 | + 53 |
| Guangxi | ( 廣西 ) | 542 | * | 264 | + 6 |
| Anhui | ( 安徽 ) | 538 | + 5 | 150 | + 5 |
| Jilin | ( 吉林 ) | 514 | + 11 | 176 | + 3 |
| Jiangxi | ( 江西 ) | 489 | + 21 | 109 | + 33 |
| Yunnan | ( 雲南 ) | 467 | + 50 | 206 | + 43 |
| Shanxi | ( 山西 ) | 345 | * | 219 | - 23 |
| Shaanxi | ( 陝西 ) | 311 | + 19 | 91 | + 21 |
| Inner Mongolia | ( 內蒙古 ) | 310 | + 39 | 86 | + 11 |
| Xinjiang | ( 新疆 ) | 294 | + 36 | 109 | + 18 |
| Hainan | ( 海南 ) | 286 | +249 | 490 | + 7 |
| Gansu | ( 甘肅 ) | 151 | + 20 | 14 | - 50 |
| Guizhou | ( 貴州 ) | 113 | + 23 | 39 | + 23 |
| Ningxia | ( 寧夏 ) | 79 | + 43 | 11 | - 26 |
| Qinghai | ( 青海 ) | 43 | + 21 | 8 | - 27 |
| Tibet | ( 西藏 ) | 11 | + 42 | 6 | - 4 |
| Regional Total | | 37,425 | + 17 | 15,421 | + 35 |
| National Total | | 40,640 | + 17 | 39,850 | + 19 |

* ± less than 0.5%

Note : Figures for individual regions do not add up to the national total as they do not include the trade, particularly imports, that is handled by the ministries and organizations that do not fall under the jurisdiction of provincial governments.

Source: Ministry of Foreign Economic Relations & Trade (MOFERT)

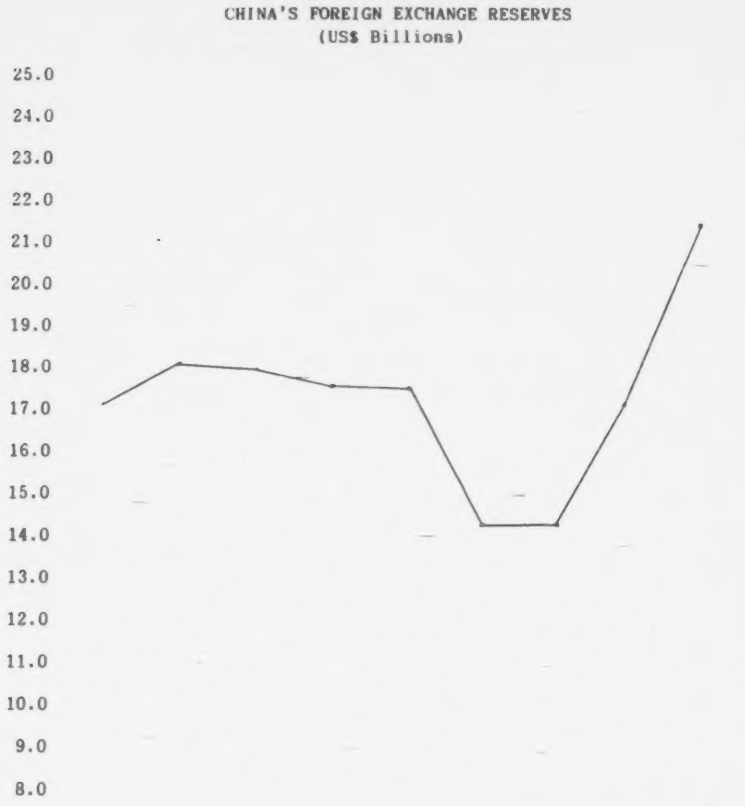
## EXHIBIT 9
## Local Foreign Exchange

### Imports with Local Foreign Exchange

(Value: US$ Million)

| Province/Municipality | 1987 | 1988 | (% Change) |
|---|---|---|---|
| Guangdong | 3,120 | 4,602 | (+48) |
| Shanghai | 1,836 | 2,640 | (+44) |
| Jiangsu | 584 | 815 | (+40) |
| Shandong | 507 | 591 | (+17) |
| Fujian | 339 | 398 | (+17) |

## EXHIBIT 10
## China's Foreign Exchange Reserves



| | 03/88 | 06/88 | 09/88 | 12/88 | 03/89 | 06/89 | 09/89 | 12/89 | 03/90 |
|---|---|---|---|---|---|---|---|---|---|
| US$ Bil. | 17.11 | 18.08 | 18.01 | 17.55 | 17.49 | 14.19 | 14.19 | 17.02 | 21.35 |

Chairman GIBBONS. Thank you, Mr. Kamm, for a very fine statement.

Mr. Hanson.

## STATEMENT OF DOUGLAS R. HANSON, VICE PRESIDENT, ASIA PACIFIC/CANADA, 3M CO., ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. HANSON. Thank you, Mr. Chairman.

I appreciate being here to testify on behalf of the Emergency Committee for American Trade in support of a continuation of MFN trade status for China for another year.

There is an intensifying scramble for markets throughout the world. While still a very major and formidable player, U.S. business is under severe competitive pressure, both here at home and in the global marketplace. The United States cannot afford to ignore foreign market opportunities.

While strongly recommending the continuation of MFN status for China, we are fully aware of the very sensitive moral and political issues that are involved. We in business abhor violations of human rights, and we certainly understand the moral outrage of those who would want to deny MFN for China.

We are also aware, however, of the benefits to the citizenry of China that flow from the U.S. business presence. There are large numbers of Chinese employed, both directly and indirectly by American firms in China. Were MFN to be denied China, it would be very difficult and, in some cases, impossible for U.S. firms to continue to employ them.

Penalizing innocent Chinese citizens in such a manner would be a morally incorrect response to an already difficult situation in that country.

Much of the business conducted by U.S. firms in China is in the coastal provinces and cities, such as Shanghai. The denial of MFN for China would cause significant harm to these provinces, their workers and their leaders through the shutdown or slowdown of U.S. business operations.

Pursuant to the exchange of MFN trade status by the United States and China in 1980, a number of ECAT member companies have made direct investments in China. Other companies have established a variety of other business relationships, including the development of export sales to China of several billions of dollars a year.

The loss of MFN by China would obviously hurt our operations. This is because denial of MFN would result in an approximate tenfold increase in the U.S. tariff as well as similar increases in China tariffs.

The Chinese Government in most cases is the major purchaser of goods produced by U.S. enterprises. In reaction to the denial of MFN by the United States, the Chinese Government could logically be expected to switch its purchases from U.S.-related enterprises to those of other nationalities. Once this is done, it will be very hard to reverse.

To a far greater degree than in a market economy, business enterprises in China depend heavily on the complete cooperation of

Chinese Government agencies to provide utilities and other requisites for the operation of a business.

Without this cooperation and a good relationship, it is virtually impossible to do business in China.

China has enormous market potential for the United States. It is important that U.S. firms have the same opportunity as their foreign competitors to conduct business in and with China. There is every reason to believe that our Japanese, European, and other competitors would benefit through picking up the short and the long-term business lost to U.S. firms by MFN withdrawal. Once you are out, you are out, and it is very tough to get back in.

The major allies of the United States share the feelings of Americans about recent events in China. None of our allies, however, is proposing to suspend MFN trade status for China. They view such an action as contrary to their national interests, particularly their national economic interests.

Unlike the United States, our allies do not invoke unilateral economic sanctions. Whenever the United States has invoked unilateral economic sanctions, they have never achieved their often intended purpose of forcing behavioral changes abroad.

While the sanctions may have satisfied some as an expression of moral outrage or indignation, they have caused others to lose their jobs, and they have resulted in substantial short and long-term business losses for U.S. firms.

In the period immediately following World War II, unilateral U.S. economic sanctions might have achieved public policy purposes. Since foreign purchasers have nowhere else to go but to the United States, it is hard to conceive of an instance where this would be true today.

U.S. national security increasingly depends upon economic security. It is important for U.S. global competition that U.S. business have a continued and meaningful presence in China. Not to continue to be in on the ground floor of China's economic growth, a potential consequence of MFN denial, could cause great damage over the long term to U.S. workers. In today's global market, the United States cannot afford to be on the sidelines.

Before concluding, I would like to comment on what might be viewed as an attractive compromise for Members of the Congress, and that is the concept of making the extension of MFN conditional on China modifying its behavior in certain ways. To the extent that other conditions are added to Jackson-Vanik, additional uncertainties are created. The greater the uncertainty, the greater the possibility that U.S. business will be forced to withdraw from China. This is clearly not in the interest of the United States, its workers and its businesses. Nor would it appear to be in the interest of those in China and elsewhere who want freedom and a degree of prosperity.

We in ECAT urge your support of the continuation of MFN trade status for China for we believe it to be in the national interests of the United States.

Thank you very much, Mr. Chairman.

[The statement of Mr. Hanson follows:]

# STATEMENT OF DOUGLAS R. HANSON, VICE PRESIDENT, ASIA PACIFIC/CANADA 3M ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE BEFORE THE HOUSE WAYS AND MEANS TRADE SUBCOMMITTEE HEARING ON UNITED STATES-PEOPLE'S REPUBLIC OF CHINA TRADE RELATIONS

Tuesday, June 19, 1990

Mr. Chairman, I appreciate being here to testify on behalf of the Emergency Committee for American Trade (ECAT) in support of the continuation of MFN trade status for China for another year.

I am Douglas R. Hanson, 3M Vice President of Asia Pacific/Canada.

ECAT is an organization of the heads of 65 large U.S. firms with extensive overseas business operations, and is currently chaired by Allen Jacobson who is Chairman of the Board and Chief Executive Officer of 3M.

Worldwide sales for these 65 firms totaled well over one trillion dollars last year and they employed about 5.5 million workers.

The economic well being of these firms and their employees depends to a very large degree on their sales in overseas markets. Without these markets, their ability to compete in the United States and abroad with global competitors would be substantially diminished, with consequent job losses for their employees.

There is an intensifying scramble for markets throughout the world. While still a very major and formidable player, U.S. business is under severe competitive pressure both here at home and in the global marketplace.

The United States cannot afford to ignore foreign market opportunities. No other government or business community does. Indeed, governments around the world are providing a variety of encouragements to enhance the global competitiveness of their firms.

While strongly recommending the continuation of MFN status for China, we are fully aware of the very sensitive moral and political issues that are involved. We are also fully aware that members of this Committee and your congressional colleagues are under pressure from some constituents to vote against continuation of MFN for China as a means of expressing revulsion at China's repressive actions against its own citizens. Just as yourselves, we in business abhor violations of human rights and we certainly understand the moral outrage of those who would want to deny MFN for China.

We are also aware, however, of the benefits to the citizenry of China that flow from a U.S. business presence. In addition to the employment of many thousands of Chinese citizens, China benefits from the opportunity, through contact with U.S. citizens and American ways of doing business, to learn about the free enterprise system and its social as well as economic benefits.

As just noted, there are large numbers of Chinese employed both directly and indirectly by American firms in China. We who employ them feel a responsibility to them. Were MFN to be denied China, it would be very difficult, and in some cases impossible, for U.S. firms to continue to employ them. Penalizing innocent Chinese citizens in such a manner would be a morally incorrect response to an already difficult situation in that country.

The Chinese now employed directly or indirectly by American firms contitute an embryonic entrepreneurial class that could be vital to a freer Chinese future. Withdrawal of MFN by the United States could only be harmful to them.

Much of the business conducted by U.S. firms in China is in the coastal provinces and cities such as Shanghai. The leaders of these provinces and cities have established close links with foreign business people, and have exerted a modest degree of independence from the

Beijing leaders. Violations of civil and human rights, incidentally, have to our knowledge been rare in the coastal provinces.

The denial of MFN for China would cause significant harm to these provinces, their workers and their leaders through the shut-down or slow-down of U.S. business operations. On the other hand, loss of MFN would have a far lesser effect on the inland provinces.

Pursuant to the exchange of MFN trade status by the United States and China in 1980, a number of ECAT member companies have made direct investments in China. Other companies have established a variety of other business relationships, including the development of export sales to China of several billion dollars a year.

In the case of 3M, for example, on the assumption that early investors would have a great chance to shape U.S.-China commerce, we began negotiations with Chinese officials in 1974 for the establishment of a wholly owned company in China.

After ten years of negotiations, 3M reached an agreement under which we established the first venture in the People's Republic of China to be wholly owned by a major foreign multinational corporation.

Two years later we began the manufacture of electrical tapes and telecommunications connectors in space leased from a major Chinese electrical concern in Shanghai. We started with nine employees and now employ over one hundred. Our business is good under current conditions. We have expanded our product lines, and we expect them to continue to expand and grow into other product lines.

The loss of MFN by China would obviously hurt our operations. This is because denial of MFN would result in an approximate ten-fold increase in the U.S. tariff as well as similar increases in Chinese tariffs. 3M operations in China, involved in the assembly of components and supplies imported from the United States, would be priced out of the market because of the very high Chinese tariffs that would be applied to imports from America. The loss of sales to our Chinese customers would result in reduced employment in the United States.

Although this is not the case with 3M, some companies have invested in China with the agreement that specified portions of the resultant product would be exported from China, thereby earning valuable foreign exchange. To the extent that exports to the United States might be involved, these investments would be made uncompetitive by reason of application of the Smoot-Hawley U.S. tariff rates that would apply without MFN.

Also, the Chinese government in most cases is the major purchaser of the goods produced by U.S. enterprises. In reaction to the denial of MFN by the United States, the Chinese government could logically be expected to switch its purchases from U.S.-related enterprises to those of other nationalities. Once this is done, it would be very hard to reverse.

Aside from the direct loss of sales to the government, there would be further damage to U.S. business interests because of the expected loss of necessary cooperation of various Chinese government agencies.

To a far greater degree than in a market economy, business enterprises in China depend heavily on the complete cooperation of Chinese government agencies to provide utilities, financing, land and property leasing, import and export licensing, telephone and cable services, and other requisites for the operation of a business.

Without this cooperation and a good relationship, it is virtually impossible to do business in China. Chinese officials could simply not afford to be seen dealing with U.S.-related business operations under the strained conditions that would follow the removal of MFN trade status.

China has enormous market potential for the United States. With a quarter of the world's population and an economy that is tilting toward more openness as witnessed by experience over the past decade, it is important that U.S. firms have the same opportunity as their foreign competitors to conduct business in and with China.

While the short term losses that would follow withdrawal of MFN would be troublesome, the longer term consequences are far more worrisome to U.S. business. There is every reason to believe that our Japanese, European, and other competitors would benefit through picking up the short and long term business lost to U.S. firms by MFN withdrawal. Once you're out, you're out. It is very tough to get back in.

The major allies of the United States share the feelings of Americans about recent events in China. Several have joined with the United States in imposing sanctions against China in reprisal for suppressions of basic human rights. These sanctions include the suspension of arms exports to China, the limitation of high-level contacts, and a suspension of World Bank loans to China, except for humanitarian purposes.

None of our allies, however, is proposing to suspend MFN trade status for China. They view such an action as contrary to their national interests, particularly their national economic interests. Unlike the United States, our allies do not invoke unilateral economic sanctions.

Whenever the United States has invoked unilateral economic sanctions -- which is often -- they have never achieved their often intended purpose of forcing behavioral changes abroad. While the sanctions may have satisfied some as an expression of moral outrage or indignation, they have caused others to lose their jobs and they have resulted in substantial short and long term business losses for U.S. firms.

Witness, for example, the natural gas pipeline sanctions levied against the Soviet Union several years back. The only consequence was the loss of a very major foreign market for bulldozers and pipe layers by Caterpillar to its major world competitor, Komatsu of Japan. The Soviet Union was denied nothing.

The same can be said about the earlier prohibition of soybean exports from the United States to Japan. Japan continued its soybean imports but from Argentina, Brazil, and others.

In the cases just cited, the losses were both immediate and long term, since both the Soviet Union and Japan continue to make substantial purchases of the products at issue from non-U.S. foreign suppliers. Caterpillar, which had 85% of the Soviet market at the time of the sanctions, now has very little, whereas Komatsu has the dominant share.

In the period immediately following World War II, unilateral U.S. economic sanctions might have achieved public policy purposes, since foreign purchasers had nowhere else to go but to the United States. It is hard to conceive of an instance where this would be true today.

U.S. national security increasingly depends upon economic security. U.S. business helps to supply that security and wants to improve on its current competitive position. To do this requires open access to foreign markets, including the newly opening markets in China, the Soviet Union and the countries of Central and Eastern Europe.

It is important for U.S. global competition that U.S. business have a continued and meaningful presence in China. Not to continue to be in on the ground floor of China's economic growth -- a potential consequence of MFN denial -- could cause great damage over the long term to U.S. workers. In today's global market, the United States cannot afford to be on the sidelines.

Before concluding, I would like to comment on what might be viewed as an attractive compromise for members of the Congress, and that is·

the concept of making the extension of MFN conditional on China modifying its behavior in certain ways. It should be borne in mind that the extension of MFN each year already is conditional -- the condition being the Jackson-Vanik requirement that citizens in the countries covered by the amendment freely allow their citizens to emigrate. China does.

I assure you, Mr. Chairman, that to the extent that other conditions are added to Jackson-Vanik, additional uncertainties are created. The greater the uncertainty the greater the possibility that U.S. business will be forced to withdraw from China. This is clearly not in the interests of the United States, its workers and its businesses. Nor would it appear to be in the interests of those in China and elsewhere who want freedom and a degree of prosperity.

We in ECAT urge your support of the continuation of MFN trade status for China for we believe it to be in the national interests of the United States.

## STATEMENT OF FERMIN CUZA, MEMBER, BOARD OF DIRECTORS, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, AND ASSISTANT TREASURER, FOREIGN TRADE SERVICES, MATTEL, INC.

Mr. CUZA. Thank you, Mr. Chairman and members of the subcommittee. I am the assistant treasurer for foreign trade services of Mattel, Inc., a manufacturer and importer of toys.

I am also a director of the American Association of Exporters and Importer (AAEI), and it is in that capacity that I appear here today.

AAEI is a national organization comprised of 1,200 U.S. companies. Our members export, import, distributed and manufacture the complete spectrum of products.

U.S. businesses involved in nearly all areas of international trade would be affected, either directly or indirectly, by the withdrawal of most-favored-nation status for the People's Republic of China.

On behalf of the significant number of AAEI members directly engaged in trade with China, AAEI strongly opposes withdrawal of MFN for China.

U.S. trade has grown tremendously in volume and complexity since the United States first provided China with MFN status a decade ago. Rather than some special trade benefit, most-favored-nation status is the cornerstone of more and more commercial trading relationships with countries worldwide. And it is a key aspect of the bilateral trade agreement with China negotiated in 1979.

The difference in duty rates between MFN and non-MFN countries in some instances is as much as from 7 to 90 percent. For the U.S. toy industry, duty rates on toys would increase from their current 6 to 12 percent rates all the way up to 70 percent.

Removing MFN status from China would seriously damage many U.S. firms, both exporters and importers who depend on the China trade.

A recent report by the United States-China Business Council estimates that without MFN status, duties on 1989 imports from China would cost an extra $4 billion. With these phenomenal increases in cost, AAEI member firms would immediately incur significant out-of-pocket losses on merchandise already contracted for sale at a specified price but not yet delivered. If duty rates go up to column 2 levels, they would have to absorb those increases, wiping out gross profits in most instances.

Such an exorbitant increase in costs could cause dislocations both on the U.S. market from job loss and higher inflation and cause havoc in the international marketplace as U.S. buyers compete for limited production capacity in other countries. Over the longer term, the cost of delays, lost time, and unavailability of alternative supply could be even more damaging to small businesses than the immediate duty increases.

Popular price textile and apparel products like those imported from China are not available in the United States. And alternative sources of supplies overseas will likely be twice the price of Chinese goods and of lesser quality, making it difficult for small firms to survive.

For many AAEI members, denial of MFN would cut off supply for products that simply are not made elsewhere in the world at any price. China is the sole supplier for a vast amount of toys, a product category in which many U.S. importers, retailers and workers have a very large stake.

For instance, Mattel gets a significant amount of its product line from China, including such well-known and popular toys as Barbie, Hot Wheels, and Disney Preschool toys. Denial of MFN for China would jeopardize the economic well-being of Mattel's 1,600 highly skilled U.S. workers whose jobs are related to our Chinese operations.

Apparently the enormous disruption of business associated with denial of MFN would come during the toy industry's peak shipping season. Christmas 1990 would not be a merry one.

Withdrawal of MFN would force discount retailers to raise prices on basic goods purchased by the lowest income consumers. For instance, a footwear member sourcing both domestically and internationally and employing over 8,000 people reported that the cost of column two rates would simply prevent them from serving the low-income consumer with the same low-priced shoes. Price increases caused by withdrawal of MFN could drastically cut the number of purchases of basic necessity consumer items and create considerable hardship for low-income consumers.

China also represents a significant and very promising market for U.S. exports, with over $6 billion worth of American goods purchased by the Chinese last year. If we removed MFN status from China, they would surely reciprocate by withdrawing MFN for American goods; a significant blow to some of our most competitive industries—agriculture, aircraft and chemicals. With our western allies apparently keeping the door open for their goods to China, hard-won U.S. market share would be gone over night.

AAEI could not agree more with USTR, Carla Hills, when she recently said, "I do not think economic sanctions are ever successful." Withdrawal of MFN status and the resulting pull-out of U.S. business from China would take away the exposure to western values and free-market ideas which clearly played a part in the prodemocracy demonstrations that we are trying to support.

Further, sanctions also run counter to other U.S. foreign policy interests, including the stability of the Hong Kong economy and the future of the Hong Kong people. Withdrawal of MFN status for China would devastate hundreds of companies in Hong Kong, as has been mentioned here before, costing Hong Kong up to 20,000 jobs.

In this context, the United States should not take unilateral action without the support of our major trading partners. Sanctions not universally imposed are certain to be unsuccessful. Furthermore, if the United States were to impose all the sanctions available to it, we would be giving up any leverage the United States might have over China.

I think I speak for all Americans when I say the events in Tiananmen Square and subsequent crackdowns should be condemned, and the United States should not condone such acts by any government. However, before the U.S. Government essentially cuts off a normal commercial relationship with that country we ask that you consider the following:

Number one, in the short- or medium-term, denial of MFN treatment for China will threaten the viability of U.S. small businesses, impose enormous costs on larger U.S. manufacturers and retailers, lead to loss of U.S. jobs, cut off $6 billion of U.S. exports to China, and come at the expense of U.S. consumers least able to pay.

Two, denial of MFN will cause havoc in the international marketplace, driving up prices both here and abroad as U.S. firms compete for limited more costly supplies elsewhere in the world.

Three, trade sanctions imposed for foreign policy purposes have not proved effective in the past, especially if they are applied unilaterally and will only reinforce some views that U.S. businesses are unreliable partners.

Four, as suggested by the United States-China Business Council, Congress should allow U.S. firms to make that decision cushioning the negative impact of price increases and economic dislocation.

Five, denying MFN treatment will severely injure Hong Kong and those most liberalized free-market sectors of the Chinese economy that have developed explicitly because of trade with the West.

And finally, there are many actions which this Government could yet take short of a total break in trade relations implicit in denial of MFN, including those multilaterally agreed upon sanctions already in place.

Thank you, Mr. Chairman.

[The statement of Mr. Cuza follows:]

## STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

Good morning, Chairman and Members of the Subcommittee. My name is Fermin Cuza, Assistant Treasurer, Foreign Trade Services, of Mattel, Inc. a manufacturer and importer of toys. Mattel has been doing business in China since the mid 1980s. I am also a Director of the American Association of Exporters and Importers (AAEI), and it is in that capacity that I appear here today.

AAEI is a national organization comprised of 1200 U.S.-companies. Association members export, import, distribute and manufacture the complete spectrum of products, including chemicals, electronics, textiles and apparel, machinery, footwear, food, toys and specialty items. Members also include many companies which serve the international trade community, such as Customshouse brokers, freight forwarders, banks, attorneys, and insurance firms and carriers.

U.S. businesses involved in nearly all these areas of international trade would be affected, either directly or indirectly, by the withdrawal or suspension of Most Favored Nation (MFN) status for the People's Republic of China. A significant number of AAEI exporters, importers and retailers are currently directly engaged in trade with China, and, overall, probably half AAEI's membership is involved with China in some capacity.

### BACKGROUND

U.S.-China trade has grown tremendously in volume and complexity since the U.S. first provided China with MFN status a decade ago. Total trade has almost tripled from $5.6 billion in 1981 to more than $14 billion in 1989. Total, cumulative U.S. investment in China is now close to $4 billion. As recently pointed out by President Bush, China supplies about one-third of U.S. toy consumption, 9% of footwear, 13% of imported apparel, and a rapidly increasing volume of electronic products.

Rather than some special trade benefit, Most Favored Nation status is the cornerstone of normal commercial trading relationships with countries worldwide, including China, and is a key aspect of the bilateral trade agreement with China negotiated in 1979. MFN status permits imports from China to enter the U.S. at the standard "Column 1" duty rate applied to all but a handful of countries. Imports from countries not granted MFN status are subject to devastating "Column 2" rates; in some instances, the increase from Column 1 to Column 2 rates is as much as from 7% to 90% and averages 40%. For Mattel, removal of China's MFN status would raise the applicable tariff on toys from its current 6-12% rates to 70%.

### EFFECTS ON IMPORTERS, RETAILERS AND CONSUMERS

Removing MFN status for China would seriously damage many U.S. firms, both exporters and importers, dependent on that trade. An April 23, 1990 report by the U.S.-China Business Council entitled "The Cost of Removing MFN from China", estimates that without MFN status, duties on 1989 imports from China would be an extra $4 billion. This additional $4 billion cost would, first and foremost, result in substantial out-of-pocket losses for U.S. importers and retailers, and, down the line, price increases for the lowest-income consumers and chaos in the international marketplace.

The Association has many members that are small businesses involved in importing from China. For these smaller firms, loss of MFN would affect them swiftly and sharply in two ways. First, they would immediately incur a significant loss on merchandise already contracted for sale at a specific price, but not yet delivered. If duty rates increased from Column 1 to Column 2 levels before customs clearance, they would have to absorb those increases. The duty increase would completely wipe out gross profits in most instances, after such fixed costs as royalties, sales commissions and capital investments are considered.

In some cases, the increased duty cost would be so substantial that they would actually have out-of-pocket losses even before considering over-head expenses. For example, one member imports driving gloves from China to the U.S.. If MFN were to be withdrawn tomorrow, the duty on these gloves would jump from approximately $1.80 per dozen to about $8.10 per dozen. Since the firm normally sells these gloves for $15.00 per dozen, allowing the company a $3 gross profit and a $.75 net profit, the additional duty of $6.30 not only wipes out any profit for the firm, but actually inflicts a gross profit loss of $3.30 and a net, out-of-pocket loss of $5.55. At a time when the highly-competitive U.S. clothing market is experiencing lackluster retail sales anyway, such increased duty costs and the outright ban on Chinese imports these costs represent, could put many smaller firms out of business in no time.

Secondly, over the longer term, the cost of delays, lost time and unavailability of alternative supply could be even more damaging to small business than the immediate duty increases. Popular-priced textile and apparel products like those imported from China are not available in the U.S., and alternative sources of supply overseas would likely be twice the price of Chinese goods and of lesser quality. The worst, and most likely, scenario for a small U.S. company importing from China would be that they would not be able to find any goods to replace those which they were purchasing in China. With the long lead times necessary for orders in the fashion industry, small companies could easily miss a whole season, or even a whole year, which would be very difficult to survive.

For many other AAEI members, denial of MFN would cut off supply for products that simply are not made elsewhere in the world at any price, leading to job loss here in the U.S. One AAEI member reports that while the U.S. abandoned production of low-priced, everyday pocket knives after World War II, various other countries did produce this common tool prior to China receiving MFN. Since then, however, because of the increase of labor costs and loss in the purchasing value of the U.S. dollar, there is virtually no production of pocket knives other than China. The near doubling of price associated with denying China MFN would cause hardship for both American consumers and those small businesses dependent on this single source of supply.

Similarly, China is the sole supplier for a vast amount of toys, a product in which many U.S. importers, retailers, and workers have a very large stake. For instance, Mattel sources 40% of its product line from China, including such well-known and popular toys as Barbie, Hot-Wheels, and Disney preschool toys. The U.S. toy industry's truly global outlook is why U.S. companies dominate the world toy market and are getting stronger every day, with 50% of Mattel's sales made outside the U.S. Denial of MFN for China would jeopardize the economic well-being of its 1600 highly-skilled U.S. workers. Finally, the enormous disruption of business associated with denial of MFN would come during our peak shipping season -- Christmas 1990 would not be a happy one.

For another retail member, employing 30,000 people, 23% of its sales are direct imports, 1/3 of those imports are from China, and 20% of those Chinese imports are toys. That retailer is currently paying an average of 5.5% duty on imports of toys which amounts to $341,000 annually. Without MFN status for China, that retailer's duty would increase to about 70% or an additional $4 million in payments. Such an exorbitant increase in costs could cause dislocations both in the U.S. market from job loss and higher inflation, and wreck havoc in the international marketplace. This retailer alone would need to find alternate suppliers for almost $100 million worth of goods -- if alternate supplies can't be found or are too great a cost, U.S. workers could be out of a job.

If every U.S. firm concluded that the increased duty costs made buying from China prohibitive -- which isn't that farfetched, we would experience more than $10 billion dollar distortion in global trade. The resulting chaos in the global marketplace would impact virtually every U.S. firm involved in trade, as U.S. buyers compete for limited production capacity in other countries. In the textile and apparel industry this is especially problematic since only a certain, limited amount of every product can be imported into the U.S. from each foreign country. Thus, many of the countries that could provide a competitive supply of a particular product may have used up their "quota", or rights to import into the U.S., for the year. Furthermore, when quota is in short supply, as it most certainly would be in other countries if MFN treatment for China were withdrawn, U.S. importers must pay a premium for quota itself.

Along with smaller firms' viability being put in jeopardy and massive economic dislocations cause by larger retailers, withdrawal of MFN would force discount retailers to raise prices on basic goods purchased by the lowest-income consumers. For instance, a footwear member, sourcing both domestically and internationally, and employing over 8000 people, reported that the substantial and unsustainable costs of Column 2 rates would simply prevent them from serving the low-income consumer with the same low-priced goods. The company already pays a discriminatory 48% duty rate, more than nine times the average U.S. tariff, on the 10-15 million pairs of canvas sneakers it sources from China annually, and without MFN this U.S. firm would pay an 84% tariff. These low-priced, good-quality shoes, which retail for about $4, could not possibly be manufactured in the U.S. and probably would not be available at the same price anywhere in the world.

As is the case with shoes, many of the goods imported into the U.S. from China are basic necessity consumer goods for purchase by Americans with limited per capita income. And, in most cases, U.S. producers would not stand to gain any benefit from a cut in supply from China because of their inability to produce competitively priced products. Instead, the lowest income Americans would stand to lose. If goods coming from China were expensive luxury goods, then price increases caused by the increased duty or by shifting to more costly suppliers would not have such a devastating effect. However, with these basic consumer items, a price increase could drastically cut the number of purchases and create considerable hardship for low-income consumers.

## EFFECTS ON EXPORTS

Injury to the U.S. economy would not be limited to those companies that import from China, however. China represents a significant, and very promising, market for U.S. exports, with over $6 billion worth of American goods purchased by the Chinese last year. Historically, China has been quick to "punish" foreign countries that they perceive as interfering in domestic issues and would surely reciprocate by withdrawing MFN for American goods. In fact, in 1987 during negotiation of a bilateral textile agreement with the U.S., China threatened to find another supplier for the nearly $500 million worth of annual U.S. agricultural exports to China. Today, U.S. wheat exports to China alone are valued at over $1 billion.

Further unilateral U.S. action against China at this time would almost certainly prove fatal to U.S. exports to that country. Not only would we lose the $6 billion in trade, but loss of the Chinese market would be a significant psychological blow to some of our most competitive industries -- agriculture, aircraft and chemicals. And with our Western allies apparently keeping the door open for their goods to China, hard-won U.S. market share could be gone overnight, resulting in lost jobs in the export sector of the economy and a worsening of the U.S. trade deficit.

## EFFECTIVENESS OF SANCTIONS

AAEI couldn't agree more with U.S.T.R. Hills when she recently said "I don't think economic sanctions are ever successful." Trade sanctions imposed for foreign policy purposes have a poor history of effectiveness beyond serving as symbolic gestures at the expense of irreparable injury to U.S. small business, loss of U.S. foreign market share, and higher prices for American consumers.

Withdrawal of MFN status and the resulting pullout of U.S. business from China would take away the exposure to Western values and free market ideas which clearly played a part in the pro-democracy demonstrations that we are trying to support. The Chinese people in the South of China are remarkably Westernized -- clearly brought about by the influx of foreigners since the opening of that area's economy. Unfortunately, these liberalized, market-oriented sectors in South China would be the first to be injured or even shut down if MFN were withdrawn, as Chinese authorities funnelled orders back to state-owned enterprises.

Further sanctions run counter to other U.S. foreign policy interests as well, including the stability of the Hong Kong economy and the future of the Hong Kong people. Of the $12 billion of Chinese exports to the U.S., 70% are routed through Hong Kong, creating valuable, high-end service jobs. Much like the Maquiladora program on the U.S.-Mexico border, many industries in Hong Kong have provided the business environment for Chinese labor, through joint production ventures, that has supported Chinese private sector development and decentralization. Withdrawal of MFN status for China would devastate hundreds of companies in Hong Kong, costing Hong Kong up to 20,000 jobs and 2.5% GNP growth. With the future of Hong Kong hanging in the balance and the grave concerns of allies such as the United Kingdom, the U.S. Congress should be extremely deliberative in its decision to take further action against China.

In this context, the United States should not take unilateral action without the support of our major trading partners. Sanctions not universally imposed are certain to be unsuccessful and will run the risk of other countries benefitting or, at the worst, alienating the U.S. from our allies. If the U.S. were to impose all the sanctions available to it, we would be giving up any leverage the U.S. might have over China by playing all our cards and taking away the 'wiggle-room' of the Chinese government. Finally, withdrawal of MFN would allow Chinese authorites to pin the blame for their current domestic economic woes on the U.S. government, further strengthening their hard-line, anti-Western policy.

## CONCLUSION

I think I speak for all Americans when I say that the events in Tiananmen Square and subsequent crackdown were abhorrent, and the U.S. should not condone such acts by any government. However, before the U.S. government essentially cuts off a normal commercial relationship with that country, we ask that you consider the following:

o In the short and medium term, denial of MFN treatment for China will threaten the viability of U.S. small business, impose enormous costs on larger U.S. manufacturers and retailers, lead to lost jobs for American workers, cut off $6 billion of U.S. exports to China, and come at the expense of U.S. consumers least able to pay.

o Denial of MFN will cause havoc in the international marketplace, driving up prices both here and abroad as U.S. firms compete for limited, more costly supplies elsewhere in the world;

o Trade sanctions imposed for foreign policy purposes have not proved effective in the past, especially if they are applied unilaterally, and will only reinforce some views that U.S. business are unreliable partners.

o As suggested by the U.S.-China Business Council, if the political risk of doing business in China remains high, U.S. firms will independently make the decision to leave that country. Allowing the private sector to make that decision, rather than mandating withdrawal through denial of MFN, will cushion the negative impact of price increases and economic dislocation.

o Denying MFN treatment would severely injure Hong Kong and those most liberalized, free-market sectors of the Chinese economy that have developed explicitly because of trade with the West.

o There are many actions this government could yet take short of a total break in trade relations implicit in denial of MFN, including those multilaterally agreed upon sanctions already in place.

Chairman GIBBONS. Thank you. Let us see, Mr. Matsui?

Mr. MATSUI. Thank you, Mr. Chairman.

I would like to ask perhaps just one of you this question unless others can add to it.

Mr. Sullivan, in terms of other countries that have trading relations with China, do you know or are you aware of any of the other countries thinking of taking economic sanctions against the Chinese?

Mr. SULLIVAN. No, there are none, Mr. Matsui.

I think the United States is really the only country, among the developed countries of the world, that thinks of trade as a weapon in the conduct of foreign policy.

Mr. MATSUI. In other words—and maybe I can ask all five of you—in all of your discussions and what not with your counterparts in other countries heard that any of the countries that do trade with China at this time are thinking of imposing some kind of economic sanctions?

Mr. SULLIVAN. It is very clear they are not. They say they will not.

Mr. MATSUI. OK, now, let me make a proposal. Let us say that we do suspend the most-favored-nation status with China. What is your prognosis as to what might happen in terms of how the vacuum might be filled after U.S. companies pull out their investments in China?

Mr. McCOY. Mr. Matsui, I could tell you that from the agricultural perspective we face a tremendous amount of competition in that part of the world from Australia, Canada, and other countries. It would be a prime opportunity for these countries to go into China which is where currently we control the lion's share of the Chinese imports, and offer themselves a more reliable trading customer. I have no doubt that the Chinese would welcome that.

Mr. MATSUI. Any other comments?

Mr. HANSON. I would just say that certainly the market is there. The vacuum will be filled by companies from Japan, Europe and possibly some other Asian countries, without question.

Mr. KAMM. A few quick comments on that question. There are 99 countries which grant most-favored-nation treatment to China. I am unaware of a single one that is even considering removing that status, point one.

Point two, since the June crackdown, the Chinese have been amassing very large foreign exchange reserves. We presently estimate their foreign exchange reserves to be about $25 billion; that is up more than 50 percent since June.

They will be spending that money on imports and if we take MFN away they will not be spending that money on American imports.

Mr. SULLIVAN. Let me just add a footnote, Mr. Matsui.

That what we would lose, also of course, would not be simply the lost exports of the year or two or three that we took MFN away, assuming that we gave it back at some point. There is a long-term loss because China would switch to other suppliers for a number of products.

If, for example, they decided to shift away from Boeing to Airbus, for example, because they were upset then I think it would be very difficult for Boeing to get that market back, even after trade relations went back to normal.

So there are very unpredictable, but frightening kinds of long-term consequences to this kind of thing.

Mr. **MATSUI**. I know we have the same problem with respect to Eastern Europe at this particular time, as you know. I mean many of the Western European countries are moving in and we look like we are a little behind the curve, so to speak, and we might lose real opportunities in that market.

I share your concerns in terms of the long-term consequences of even a 1-year suspension, because should it occur, we are obviously out of the market, and even if we try to revive this in June of 1991, we may be in a position where we are out of the market and others will have filled the vacuum.

Is that your basic sense, Mr. Hanson?

Mr. **HANSON**. Yes, I would definitely concur with that. I think, as a matter of fact, when we think about the short-term, that is not nearly as important as the long-term basis. Because once someone is in, and established and has a foothold and has the market, it is really difficult to take over that market from them, and that is a very important issue.

Mr. **CUZA**. Mr. Matsui, as far as just our company alone, we employ over 3,000 Chinese workers in our two plants in China. So there is an immediate impact on 3,000 Chinese workers. For the U.S. industry, as a whole, we import basically 40 percent of the products of the toys sold in the United States are sourced in China, and close to 60 percent of all the dolls.

So there is an impact to the U.S. toy industry and clearly there is an impact to the Chinese workers.

Mr. **MATSUI**. Now, you all obviously have relations and dealings with the Chinese Government, your companies do, or your associations do. Assuming that the vacuum is filled by other countries, do you think that is going to have any impact on the Chinese in terms of what they might do in terms of human rights, or their emigration policies?

Mr. **SULLIVAN**. Well, let me try that. I say, you know, I think pretty clearly, no. We have a very peculiar situation here. You have a Government of China run by some people in their eighties who are reacting—as some of my Chinese friends told me as I visited China last October—as the leaders of any dying dynasty have acted in the history of China—namely they regard foreign influence and reform as threatening to their power position.

They look at what has happened in Eastern Europe and the Soviet Union, particularly the execution of Mr. Ceausescu as suggesting to them that reform is dangerous to their health and that they should concentrate all their efforts at maintaining their power position. This is why they have resorted not to efforts to mobilize opinion and to gain support of their people the way that Chinese Communist governments have done in the past, but simply to naked repression.

I am certainly not justifying that; I am not apologizing for it, I am simply saying that is the way they are and that is the way they are going to remain. What I am really saying is that any policy which attempts to try to sweet-talk them out of it is not going to work, but by the same token, any policy that tries to force them to change is equally flawed.

That what we need to do is to assume this Government is not going to change, look beyond it, and beyond it is not too many years away, and think about what kind of sensible kinds of steps we can take to try to minimize the damage.

It seems to me the sensible steps are to try to preserve what structure we can while we are waiting for these people to pass from the scene, and meanwhile to keep the public contacts up—travel, education exchange, business exchange—because these all put pressure on for reform and change.

Mr. MATSUI. What is very interesting is that I have spoken with a lot of individuals who were born in China, who have subsequently come to the United States and become U.S. citizens and many of these people have no trade relations with China.

I wanted to make sure that I got an objective point of view from these people. Almost universally they indicate what you say, Mr. Sullivan, that if we attempt to apply pressure on the current Chinese Government it would only backfire, because they would stiffen their backs and essentially become even more isolated, even more antagonistic.

Obviously sweet-talking will not do either. Perhaps maintaining trade relations, economic relations with China and trying to raise an entrepreneurial class over a period of years might be the most appropriate way to go.

Obviously we still have some time, yet, and this matter is going to be developing. In terms of where I am coming from, I certainly want to see China become obviously more democratically inclined, but the question is, how do you do it?

I certainly do not want to put myself into a class that would just be reacting to events and I certainly share the concerns of many of you in that respect.

Mr. HANSON. I would make a comment on that, Mr. Matsui.

Our experience has been that the people that we are dealing with really want the kind of background and experience that we can bring in—the management experience, marketing, the way of doing business, entrepreneurial spirit. The employees that we have hired really like and want to work for a multinational company that has this kind of background so that they can learn about what is going on outside their country.

We feel that withdrawing MFN would, in fact, hurt and help the wrong people. We think that withdrawing MFN would hurt those reformers who want to progress, and would, in fact, help the hardliners.

Mr. KAMM. Very clearly, Mr. Matsui, taking most favored nation away from China will badly hurt Hong Kong and Hong Kong has been a critical force for change in China these last 12 years.

I have not—I have come to Washington three times in the last 4 weeks from Hong Kong on this issue—and I have not heard a single individual challenge the assertion that taking MFN away from China will badly hurt Hong Kong.

Now, how will hurting Hong Kong help democracy and reform in China?

Mr. **Matsui**. You raise an important point, because it is my understanding and maybe you can confirm or elaborate on this more, that many of the residents of Hong Kong now are moving to other countries such as Canada, where they feel there is a safer haven because of 1997. Eliminating most-favored-nation status would, in fact, perhaps even increase that flow, is that your sense?

Mr. **Kamm**. It would greatly accelerate the flow because right now the people of Hong Kong are very concerned about what is going on across the border. If they are also worried about how their best friend in the world is going to treat them, then it will greatly, greatly accelerate the brain drain and the flow of people out.

By retaining most favored nation—and I might add, it would appear that since the efforts of the people of Hong Kong in this matter have begun that we have seen a slight easing up of Chinese pressure on Hong Kong—if Congress were to retain most-favored-nation status for China, at least in part, out of consideration for Hong Kong, I think it would have a beneficial impact on confidence in Hong Kong.

Mr. **Matsui**. I would like to thank the panel.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

I would like to thank the panel for what I thought was very good testimony.

One of the questions we have this morning is whether we ought to limit the granting of MFN, based on human rights as has been stated by a couple of witnesses, or based on whether a country is moving toward private enterprise, which was suggested by Mrs. Pelosi.

Let us back off from that a minute and talk about whether MFN for China or any other country ought to be conditioned, as it currently is in the law, by emigration policy.

What advice would you gentlemen give to Congress regarding the Jackson-Vanik amendment and whether it is a suitable provision for U.S. trade law or not?

Mr. **McCoy**. Mr. Pease, just to answer from the agricultural perspective, to begin with. I think it is fair to say that agricultural groups throughout the country have traditionally been opposed to the concept of Jackson-Vanik, opposed to the issue of linkage between conditions, political conditions or other conditions in trade.

The primary reason, as the other witnesses have indicated here, is that we face tremendous competition internationally and none of our competitor nations are asking for the same kinds of conditions to be applied. Consequently, when we go out in the international arena we trade and then we pull back from trade because of decisions that are based on political considerations but not commercial considerations.

We are deemed unreliable. We have had this problem time and again in U.S. agriculture and consequently that is why we support not only granting of MFN in this instance, but waiver of the Jackson-Vanik with respect to the Soviet Union.

Mr. **Pease**. Mr. Sullivan?

Mr. **Sullivan**. I would say that I think there is a general feeling that the Jackson-Vanik is becoming an anachronism as more and more Communist countries abandon communism. But beyond that, we heard some criticism earlier this morning, that there is an inconsistency here that we give MFN to Syria and South Africa and so forth, and then have this special category for so-called nonmarket economies.

There is the feeling that we ought to make up our minds how we are going to treat countries. If we are going to do that, then are we going to apply certain standards to every country in the world? Are we going to stop trading with Great Britain until they get out of Ireland, you know, things like that?

Or are we going to look at what other countries in the world do? It seems to me that if we move away from something like Jackson-Vanik, which I think is the trend, that I would hope that the Congress would consider the point that we are after all now not the dominant economic power in the world, but one country among many and we are going to have to compete in this world. We are going to have to live in this world and the competition is going to get a lot tougher.

We ought to follow the principle that I think you followed, when you were debating the sanctions bill last year, and that is do not take unilateral action. In other words, if other countries in the world are not prepared to hold up certain standards like that, then we should not either.

Mr. Hanson. Mr. Pease, I just comment that we think it would be important and worthwhile that the period of time for Jackson-Vanik waivers be extended from one 1 to 3 years. The 1-year timeframe is too short a period of time, from a business standpoint. Decisions made take 2 to 3 years to implement. With just the limited timeframe of 1 year, it is very difficult for businesses to make decisions because we just do not know what is going to happen a year from now.

We would like to see the waiver period extended to a 3-year period as a minimum.

Mr. Pease. Mr. Kamm, Mr. Cuza.

Mr. Cuza. I would like to reinforce those comments that the uncertainty that would develop by tying and putting conditions on granting MFN status to any country is very difficult for U.S. businesses to accept.

In this situation with China, extending the MFN status with conditions is better than not extending MFN status, but as a general policy I think it would hurt U.S. businesses and would hurt their ability to plan ahead and to promote the kinds of investments that we are trying to do today to reduce the trade deficit and promote U.S. competitiveness.

Mr. Pease. I understand your general position. The question is on Jackson-Vanik, whether Jackson-Vanik is an appropriate part of our law or not, our trade law?

Mr. Kamm. I really feel it is an anachronism. It has outlived its use, Congressman Pease.

I have lived overseas for almost 20 years. I went over just out of school and in that entire period of time I have been involved in promoting the export of American products. We have made a lot of progress in the last few years in reducing our trade deficit. I would be very concerned if we began attaching more and more conditions to the granting of trade benefits just at a time when we, in our country, are getting competitive again.

I think Jackson-Vanik as a conditional way of extending trade benefits really has outlived its usefulness.

Mr. **Pease**. One of you made the comment that the United States is no longer the dominant economic power, and unfortunately that is probably the case. We are, I think without question, though, the dominant country in the world in promoting human rights. One reason the United States is looked upon differently from other countries is because of our support for human rights.

I guess the question is, if we do not tie human rights considerations to trade, and we do not react to Tiananmen Square in the trade arena, how do we react, aside from beating our breasts and making meaningless statements that will not accomplish any change in China?

Mr. **Kamm**. Just very quickly. The thrust of my argument certainly is that taking most-favored-nation treatment away from China is actually counterproductive in the sense that it hurts Hong Kong, the coastal areas and American business which are precisely the forces which have promoted change and respect for human rights.

Mr. **Pease**. Well, what can we do that would be productive rather than counterproductive?

Mr. **Kamm**. Bearing in mind that we are dealing with a bunch of very old men who will be passing from the scene shortly, hard as it is for Americans to accept this, a patient continuation of the present policy of disapproval, and constant approbation to the regime, I believe is the better course.

Mr. **Pease**. OK, Mr. Sullivan.

Mr. **Sullivan**. If I may comment?

First of all, I do not think we should separate human rights considerations from trade.

Mr. **Pease**. You do not?

Mr. **Sullivan**. I think we should not separate the two. I believe that if someone could convince me that a trade embargo against China by the United States or withdrawal of MFN would actually bring about the change of the Government in China I would be all for it.

I am just saying that it is not going to work. That we should simply look at this—and that is what I meant by my opening comment—it seems to me to embark on a sort of Quixotic gestures in saying, we do not care if it is going to hurt the farmers, we do not care if it is going to hurt the people of Hong Kong, we are mad and we want to express our outrage. That is an immoral policy, it strikes me.

That we should think through what we are trying to do. Now, to get to your point, what can we do? I think trade is the wrong instrument here because it is going to make matters worse not better. It is not going to bring about a change in policy or a change in the Government.

I think that, first of all, we could have made things a lot easier if we could go back before the Scowcroft trip and then not have the Scowcroft trip. There are a number of things that the U.S. Government could have done earlier on to say that the United States does not regard this regime in China as any more than a transitional regime.

That we regard it as a Government which has lost its legitimacy in the eyes of its own people and in the eyes of the world, and that we are going to conduct ourselves accordingly.

Then when you come to renewing MFN you can make it very clear that you are renewing MFN not because you think this is a great government or that you want to prop it up, because you think that renewing MFN is going to have precisely the opposite effect.

Things of that kind, statements of that kind, an abandonment of high-level exchanges of visits, not just as a statement of policy, but giving the reason there that we no longer want to symbolize that the United States regards our relationship with China as something that we particularly want to broaden and deepen which is what we have done over the last 20 years.

That will do more to serve notice on these people that their legitimacy is being questioned by the United States, which as you say correctly, is the country that stands up for human rights.

But also that the regime there is regarded as transitional. That will do more to build up the morale of the prodemocracy forces in China than doing anything to take the MFN away.

Mr. PEASE. Thank you, Mr. Sullivan.

I would like to go on but I would just like to make the observation that when I first came to Congress in 1977 Idi Amin was in power in Uganda and there was a blood-bath throughout that whole country. We discovered that almost all of the coffee crop on which Uganda was dependent went to the United States. We tried to organize a boycott, which ultimately was not a legally imposed boycott, and was voluntarily agreed to by American coffee purchasers.

It was not very long after that boycott was announced that Idi Amin was no longer in power.

A couple of years ago we were told that imposing sanctions against South Africa was fruitless; that South Africa would never change and we would only be hurting American industry. Now, South Africa is changing.

So I am not entirely sure we can accept your premise that economic action in the trade area is not useful and productive in changing administrations.

Mr. SULLIVAN. If I may sir, it is not a premise. It is simply a judgment that you have got to make.

What I am saying is that if it is going to work, by all means do it. If it is not going to work, do not do it, just because you want to express your outrage. The judgment here is to look at the argument and look at the history and if your judgment is that it would work, then it is worth all of the pain that you are going to cause these people.

But my judgment is that it is not going to work. It is not a premise, it is a judgment. I recognize that other people have different judgments.

Mr. PEASE. OK, thank you.

One last question, Mr. Chairman.

I have asked you before of your opinion of Jackson-Vanik, and I think all of you are pretty much in agreement. However, for the moment, Jackson-Vanik is the law of the land.

Mr. Schulze, in his testimony, gave pretty convincing testimony that on emigration alone, China is getting worse, not better. Given Mr. Schulze's assertions, are they correct, and if so, should we deny MFN to China based on current American law?

Mr. McCoy. Mr. Pease, I can simply tell—I am no expert and do not follow emigration issues that closely—but I could tell you that the Chinese Government officials that I have talked to, in general about trade related matters associated with this issue contend that, in fact, the number of Chinese students entering the United States has increased rather than decreased in recent years.

So I guess there is a difference of——

Mr. Pease. In recent years, or in the last 12 months?

Mr. McCoy. In the last 12 months, I think, in the most recent period. So——

Mr. Sullivan. Sir, one thing that is clear too is that in the last 12 months more Chinese have received permission of their Government to apply for entry into the United States than the United States has been prepared to accept.

So we come back to that old story which is a true story of Deng Xiao Ping saying to Senator Jackson, how many million do you want in Seattle next Wednesday?

In that connection, if I may tell a private story, I was in the Government at the time and I remember that Senator Jackson said one time at a meeting at which I was present that he was startled to find out that people thought Jackson-Vanik applied to China. He said that never crossed his mind.

Mr. Kamm. Again, just to buttress that with respect to Hong Kong, there are certainly many, many more Chinese who would like to come to Hong Kong than the Hong Kong Government is willing to accept. There has been an increase in outflow of Chinese legal emigrants into Hong Kong continuously for the last 10 years.

Mr. Pease. I see. Thank you, very much.

Thank you, Mr. Chairman.

Chairman Gibbons. Thank you.

Mr. Guarini.

Mr. Guarini. Thank you, Mr. Chairman.

I think, Mr. Chairman, it ran through your mind when we were talking with Deng Xiao Ping and you have often told the story that he said, yes, Jackson-Vanik, I know all about it. Mr. Vanik was there. He said, I have 100 million Chinamen I can send you.

I want to reiterate the fact that all of us are interested in human rights and freedom and democracy in China and that is our common objective. The question is, how do we get there?

What we want to do is something that is multilateral in scope, where all the countries in the world are exercising pressures. At the same time, we are not just going to do it alone and let them pick up all of our trade, and lose our future trade opportunities in a marketplace that could be enormous. Almost one-quarter of the people of the earth are in this country that we are talking about.

You people are very, very close to the problem because you deal with China. You understand their thinking process. We make mistakes in our State Department thinking that everybody thinks like we do, here in Washington. The fact is there are different cultures, mores, laws; there are different backgrounds where even their mental processes are different.

So we think we are going to have one given result in a State Department policy and we have just the opposite result. Now, in dealing with the hardliners and the Chinese leaders I am in agreement with what you say. It appears to be from the basis of your testimony that it would have a negative effect, instead of helping ameliorating the situation, it would even worsen it.

So, therefore, it would be the opposite as to what our State Department and Washington thinks. We would only hurt the reforms in China and would only close off tens of thousands of jobs from our marketplace, threaten Hong Kong and lose a great future market for our products. I think that would be a very, very negative result on every front.

I am wondering what the American businessmen have done in regard to their attitudes? How have they changed, if any, since Tiananmen Square? What are they doing that it constructive and how do you evaluate the attitudes that they have taken since this past year?

Mr. Sullivan.

Mr. SULLIVAN. There is a great variety there, but I think as a general rule you could say that if you look back over the history of our economic and commercial relationship with China since the 1970's that that the American business community has responded to the environment that is presented by the Chinese. In responding they have also influenced that environment.

The high point, I think, of our relationship was 1987 and early 1988 when Americans, for the first time, really were allowed actually to become investors in the Chinese economy, actually producing product in China on a broad scale. There were some experimental ones before that, but on a broad scale to produce products for the Chinese, hiring workers directly instead of getting them from the State, training workers, develop customers and marketing systems and so forth, and really begin to push the Government, by our very presence, to speed up the process of reform.

Now, since Tiananmen, the environment has deteriorated. You have businesses reacting not so much to Tiananmen, itself, as to what Tiananmen symbolized and Tiananmen symbolizing a return to prereform policy in many respects.

That is what we have seen—and here it is not limited to Americans. I think this is a universal reaction. Business people are business people anywhere in the world. We have seen, as I have noted in my statement, a 75 percent drop in new export license applications in China over the last year—people are pulling back.

This is what I meant by putting the pressure on that Government, that the regime there sees that on the one hand it says that it wants foreign capital and wants foreign technology to come in and on the other hand it sees that to get it, it has got to pay a certain price.

Then they want to maintain their position of power so that they start cracking down and they start interfering in the work force at the factories. Then business says, wait a minute, we cannot do business in an environment like that. So they start to pull out.

It is useful—this is where the reform effect of foreign business really begins to bite—as you force these people to face the contradictions of their policy. That you cannot modernize, you cannot move toward an American system, you cannot move toward highly motivated workers and run a Stalinist economic system at the same time. They have got to make choices.

Mr. **Kamm**. If I can briefly tell you a little bit what our chamber has done? We have done three things. First of all, we have tried to ascertain which of the cities and provinces are most proreform and adopted the most even-handed treatment of the prodemocracy demonstrators and we have gone to those cities and provinces and promoted business with them, whereas those cities and provinces which supported the hardliners, we have stayed away from them altogether. That is one thing we have done.

Second, we, as a chamber, have greatly increased our contacts with Chinese students and we are holding a number of programs on Chinese universities and meeting with the professors and the teachers who are the real supporters of reform in China.

Finally, every time we meet with senior Chinese officials we point out to them that unless they release political prisoners and improve the human rights conditions, American business cannot return to normal. I think we have had some salutary effects.

Mr. **Guarini**. Well, in regard to the official sanctions that we have already put into place, there are a number of things concerning loans from the banking institutions, exchange of Government officials, the dialogs we have had with China, things regarding students and COCOM and technology. There are things we have had in place.

How effective has this been? We have already had sanctions going. Has this helped or has this hardened China's attitude?

Are we on a regressive program in trying to punish China that is not working at all?

Mr. **Kamm**. Again, that seems to me to be a very good question and a critical question here. We have had sanctions in effect. They have been serious sanctions. China has lost access to something like $2 billion in loans, and yet, we do not really see the effect of those sanctions.

Where is the argument that by using this bigger stick we are going to achieve what we have not achieved so far? I really think that it is the private sector sanctions, the sanctions of the heart that are more effective in dealing with this type of regime.

Mr. **Hanson**. Mr. Guarini, I would like to comment on your previous question also, as well as this one.

We believe very strongly that our 3M presence in the People's Republic of China demonstrates how business enterprise can function effectively by providing jobs—a substantial number of jobs now and in the future—by showing how our business can operate, how we are growing, how we are helping to build the economy, paying the taxes and demonstrating how a business enterprise like ours works.

They have been very appreciative of this fact, as demonstrated to us by the local government officials. What Mr. Sullivan said is true relative to the reduction of investment because of uncertainty.

I can tell you from personal experience that the government, particularly in Shanghai where we are doing the majority of our business, has really gone out of its way and bent over backward to help us in this past year.

Our business has grown very substantially in this period of time. Chinese officials are aware of the fact that the impact of Tiananmen Square was very negative and they are doing everything possible in their way to help assure us that we are wanted, that they want to see our kind of business flourish. They are very concerned that businesses like ours are successful.

So we feel that while the people in Beijing have done what they have done, that the local people in the local provinces really want us present, and by being there we are demonstrating how this can best help their economy and their people.

Mr. GUARINI. So the bottom line, Mr. Hanson, is that by going it alone, our other trading partners are picking up our share of our trade, causing a future loss of a possible great market in China, not affecting human rights issues or helping freedom and democracy at all in China.

The policy of the sanctions has not worked. To have further sanctions would only be more detrimental to us, as a nation, then by keeping the door open. In that way we can at least keep putting pressure on China, keeping a relationship with the people of China, so that when the new leadership comes—and most of these people are in their upper eighties—we can hope for a better relationship, and we will be in place to take advantage of a great market for our people and for our goods.

Mr. HANSON. I think that is true. I think whatever sanctions are taken that would cause companies like ours and others to be out of business would be definitely negative and detrimental to the building of economic and social reform in that country.

Mr. MCCOY. Mr. Guarini, if I could just mention that, in fact, as has been said here the sanctions are counterproductive in the sense that they lend the current regime an argument which is that they basically will be able to blame the United States for the failure of their own economic policies.

This is something Mr. Sullivan indicated that they were celebrating the 150th anniversary of the Opium War. This is clearly one of the options available to the Chinese regime to withdraw away. As we disengage, they disengage. In disengaging they cut the life-line to all the forces of democracy that are basically supported by this whole process of economic liberalization that the United States has been instrumental in facilitating in that country.

Mr. GUARINI. Well, if Japan and the Common Market and the other trading partners of the world that we have were in lock-step with us, then sanctions would have some effect. To go it alone and not to be multilateral in our approach is only creating pain and agony amongst ourselves and probably not even producing any positive result.

You, from your issues and from the fact that you have been involved with the China, say that it would even be counterproductive, from what I understand?

Mr. HANSON. That is correct.

Also relative to the sanctions, it was mentioned earlier that the sanctions in South Africa did work to some extent. However, those were multilateral. That was not a unilateral situation.

Mr. GUARINI. That is right. That should be pointed out. Thank you, sir.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

Thank you all for your testimony.

I hope numbered among your exports to mainland China are great quantities of high-cholesterol, low-fiber food for the leadership that they might be called into early retirement before 1997. [Laughter.]

A concern that I have with regard to some of our State Department people has been the denial of support that Carla Hills has evidenced granting Taiwan GATT status. They, as you know, have petitioned for it, and I am wholeheartedly in favor of it. I would not want to attempt to establish a linkage on denial of MFN or support for MFN for the mainland as a tradeoff.

On the other hand, it seems to me illogical on our part to continue to try and deny the fact that Taiwan is our fifth largest trading partner and they are not seeking admission as the Republic of China, but as a customs territory.

Do you think this would have a real negative impact on our relations with the mainland leadership if the United States went along with trying to get Taiwan into the GATT?

Mr. SULLIVAN. Let me try to respond to that, Mr. Crane. This is really in the category of other things we can do that Mr. Pease asked us about.

I agree that it should not be linked to MFN, but it can be linked to just a new policy toward China, a change in our attitude toward China. Before Tiananmen, the United States was following a policy of giving China special treatment in a whole range of areas and the tendency was sort of to make exceptions for them. There was talk about China being eligible for GATT membership rather soon and one would have to have assumed that China would have been given membership on some kind of exception to the general rule.

There was also, as you are well aware, the policy that Taiwan's accession to the GATT would have to await China's accession.

I think that without linking it to MFN, that the United States ought to make clear that now the United States (*a*) does not regard China as a special case any more in anything; (*b*) that China does not now qualify for GATT membership and probably is unlikely to qualify for some time, unless they return to a policy of reform. Therefore, we are not going to force Taiwan, which does qualify to wait around for them to do so.

By all means, I think it is an appropriate step for us to take to simply say, we are not linking it to anything, but you have changed things, and therefore, we are changing our policy.

Mr. CRANE. I appreciate the expression of the sentiments and I hope that you folks could exert some influence on some of those folks at State, because I think you have a very direct contact and knowledgeability and understanding of events over there. That was a plausible argument that State has advanced in the past, that this could serve as putting a big wedge between our relations with the People's Republic. I, myself, did not feel that way and there is not a basis for a linkage. It is an acknowledgement of a reality.

I think also Mr. Kamm's comments about the damaging—well, all of you—the damaging influence in terms of our input in a positive way and I agree I think that is more productive coming from the business community than from Government. To the degree that there are unsettling conditions on the mainland, businessmen back off and that communicates a very powerful message.

It is very difficult, it seems to me, to maintain a totalitarian regime when you have expanding development and trade. That is a kind of a precondition really for the establishment of democratic institutions.

I want to thank you all for your testimony here and keep up the good work.

Mr. MATSUI. Mr. Chairman?

Chairman GIBBONS. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

May I ask you gentlemen one more question? Mr. Sullivan, your organization is the United States-China Business Council. It is my sense in Eastern Europe at this time they are going to need a lot of infrastructure development, for example, telecommunications, and some high technology. Obviously we have to get our act together in terms of the Congress and the President making sure we do loosen up some of our technology transfer requirements and laws and regulations at this time.

Assuming, for a minute, that we eliminate most-favored-nation status for China—is it your belief, given the stage of development of the Chinese economy is in, that the Japanese, the French, the Germans, and others will go in and begin to develop infrastructure in China? What would be the consequences of that for the United States in terms of our ability, once the market is taken up by these other countries, to begin to go in?

Mr. SULLIVAN. Well, I think there is really no question that that is what would happen. We have seen in the past, first of all, the Chinese Government, itself, would take steps to declare the United States a source of last resort for anything, which means that China would seek to buy and to get investment from sources other than the United States whenever it could.

This would mean that as China develops everything from its television industry to its power plants, to its aircraft industry—just right down the line—they have got all sorts of projects there to develop, telecommunications to develop, energy generation to develop, to develop their electronics industry. They would look to the Japanese and the Europeans for that. The Japanese and the Europeans would be more than happy to oblige.

That would mean that we would not only lose those sales, but more to the point, we would be out of the business for any number of those projects for all of the lucrative replacement markets—spare parts, whatever down the road. The costs would be very difficult to quantify but they would be severe.

Mr. **Matsui**. Mr. Chairman, I just have one further question, if I may.

Chairman **Gibbons**. Please continue.

Mr. **Matsui**. Thank you, Mr. Chairman.

This was raised during the testimony of our colleagues in the first panel. At this particular time we have a trade deficit with the Chinese in terms of our export-import balance of trade with them.

That appeared to be one of the reasons some of my colleagues suggested that we may cut off most favored nation, which I totally disagree with, if, in fact, that was the conclusion.

In the next few years, from your perspective as a member of the business community, do you believe that we are going to reverse that trend and begin to have a positive balance of payment surplus with the Chinese?

Mr. **Sullivan**. Let me just comment first on that, because I was struck by that as well. I would hope that this committee would not think that eliminating a bilateral deficit was a great public policy objective, since if the United States cut off all trade with China we would not be suddenly $6 billion to the good.

Mr. **Matsui**. I was thinking that if it would work we ought to do it with Japan.

Mr. **Sullivan**. That is right. I mean the products would come in from some place else.

That is a very good question, because the Chinese always point out to us that on a cumulative basis—and they are correct—the United States has a big surplus with China; in other words, going back to 1972. The deficit is really a rather recent vintage.

The deficit has been caused, in part, because the Chinese have tried to slow down their importation of things to cool off an overheated economy. Meanwhile to push out those exports in order to get the money they need to buy those things down the road.

It is a little out-of-phase at this point, but China is a huge market for a lot of products that the United States is very competitive in, if not the preeminent country in the world—telecommunications, power generation, aircraft, automotive industry, even the long-haul locomotive industry, electronics.

The Chinese approach the trade as not to just try to pile up surpluses. They are not following a policy and they have not been following a policy of export-generated growth the way that Taiwan and Korea did. They rather have followed a policy—because it is a large economy, not an island economy—a policy of trying to develop just the exports they need to spend on what they want to import.

So that deficit will close. I have told the Chinese, over the last several years and I think they see it coming too, that by 1992 and 1993 we are going to see that deficit close. That China, over the long term, is probably going to and probably should run a rather sizable deficit with the United States. That is what developing countries should do.

Mr. **Matsui**. Thank you. I have no further questions.

Thank you, Mr. Chairman.

Chairman **Gibbons**. I want to thank this panel for their expert testimony, and particularly to you, Mr. Kamm, for coming so far to be with us today.

We now have a panel of Mr. Ye, Ms. Gong, Ms. Burkhalter, and Mr. Li and Mr. Lu.

I would call everyone's attention to the fact that we have a vote on the floor. This is probably an appropriate time to take a break. I will go over and vote and then come right back, and we will resume as quickly as we can. There will be a temporary intermission.

[Pause.]

Chairman GIBBONS. May I have your attention, please? May I have your attention, please? Because of the circumstances, I think we will take a break now until 1:15 and come right back. At that time, other members of the committee will be able to be here. I ask the staff to please notify the other members of the committee that we have taken a break until 1:15. I know many of them expressed interest in wanting to hear this panel. I am sorry it comes at the wrong time.

We will take a break until 1:15.

[Whereupon, at 12:05 p.m., the subcommittee recessed, to reconvene at 1:15 p.m.]

## AFTERNOON SESSION

Chairman GIBBONS. I wonder if the committee could now come to order. I want to welcome the panel and thank each of you for waiting patiently. I am sure those Members who said that they would be here because they wanted to hear you will materialize. Unfortunately, the floor action is distracting Members right now. We have a little controversy going on over there.

Mr. Ye, why don't you proceed first.

## STATEMENT OF YANG YE, PH.D., ADVISER TO THE PRESIDENT, INDEPENDENT FEDERATION OF CHINESE STUDENTS AND SCHOLARS, AND ASSISTANT PROFESSOR, BATES COLLEGE, LEWISTON, ME.

Mr. YE. Thank you, Mr. Chairman.

My name is Yang Ye. I was born and brought up in the People's Republic of China. After receiving my baccalaureate degree from a university in Shanghai, I came to this country to study toward a Ph.D. in Cambridge, Mass. After receiving it, I am now an assistant professor at Bates College in Lewiston, Maine.

Today I appear on behalf of the Independent Federation of Chinese Students and Scholars in the United States. One thing I have to say is that three things mark this federation different from almost any of the other student groups in this country.

Number one, the federation was established last July in 1989 at a meeting in Chicago which was widely publicized in the media with about a thousand representatives from all over the country, including 400 voting members and 600 observers. And so it is not a local group. It is the largest group that represents many independent associations of Chinese students and scholars in this country.

Number two, the present leadership of the federation, including its president, its vice president, to whom I am adviser, were elected at this meeting in Chicago after a thorough democratic process.

Number three, the Chinese Government, right after the establishment of the federation, had already declared in the People's Daily, which was the mouthpiece of the Chinese Government, that the federation was, in their words, "a counterrevolutionary organization." And since then, the federation has been a major target of harassment and political threatening from the Chinese Government.

I remember it was almost exactly a year ago that I gave my first testimony in the House, in a different room, in front of a different committee. At that time, we were still in shock of the Tiananmen massacre. I fully realized that today when I appear we are not talking about the massacre, even though we still should bear that in mind. As Milen Kundra, the poet in exile, once said, "The fight of man against power is the fight of memory against forgetting."

We should remember Tiananmen, but today we are not here because of the Tiananmen massacre. We are here to talk about a very specific issue: whether we should grant a waiver to the Jackson-Vanik amendment to the Government of the People's Republic of China, which is the Government that still detains thousands of political prisoners, executes dissidents without due process, harasses and persecutes religious groups, especially the Catholics and the Buddhists in Tibet. This is the Government that keeps promoting its big lie that nothing happened in Tiananmen Square. This is the Government that still exercises de facto martial law in Beijing, as well as in Lhasa. So we are talking about what is going on today, not about the massacre.

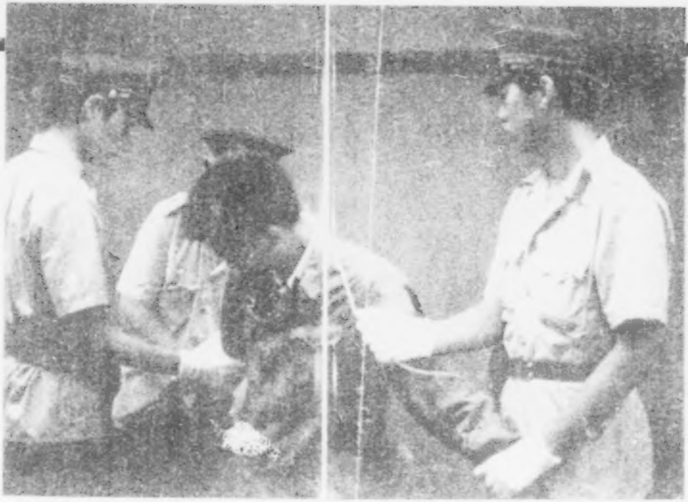
I just want to call your attention, let us take a second to have a look at the chilling picture smuggled out of China and published in the recent issue of Newsweek, June 4, 1990. Mr. Chairman, I beg your permission to have this submitted as part of my testimony.

Chairman GIBBONS. Certainly. We will be glad to include it in the record.

[The Newsweek article follows:]

# The Death of Democracy

## Ugly images of China's crackdown on protesters after Tiananmen Square



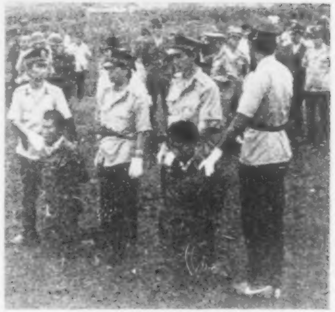
The pictures looked like Japanese atrocities against the Chinese in the '30s—or Goya's images of war. In fact, they were supposed to represent justice, the summary justice dealt to protesters across China after the Democracy Movement massacre. Apparently to discourage new protests, police [illegible] Chinese photographers and TV crews in one university town to document a public execution. As the first anniversary of the massacre approached, a photographer smuggled his film of the shootings out [illegible] to Paris; the photos showed the killing fields where the movement died.

Wang Guiyuan, an unemployed worker, and Zhou Xiang Cheng, a shopkeeper, were arrested in central China and thrown into a crowded jail. After a kangaroo hearing in a converted movie theater, they were charged with setting fire to buses and sentenced to death. Police hustled them off and shot them.

Chairman Mao said that power comes from the barrel of a gun, and hard liners have ruthlessly applied that axiom. Amnesty International says the crackdown resulted in more than 1,000 executions. It has a list of 700 protesters rounded up throughout China. The government has released 211 detainees; it says 431 remain in jail.

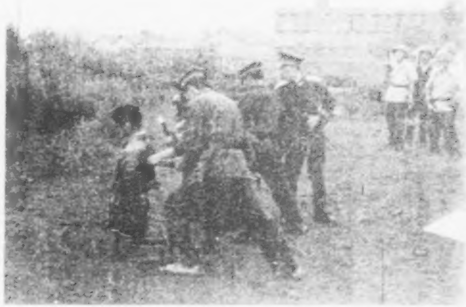
George Bush announced last week, nonetheless, that he would extend China's most-favored-nation status for another year. "The real issue is who gets hurt, who gets hit," explained Secretary of State James Baker. China sells the United States about $12 billion in toys, textiles and apparel annually; without the extension, tariffs could have risen on average 60 percent. China's imports from America run to about $6 billion. "Lose this market, and we lose American jobs," Bush said. The president also said the U.S. ambassador in Beijing had assured him that students and intellectuals in China supported his move.

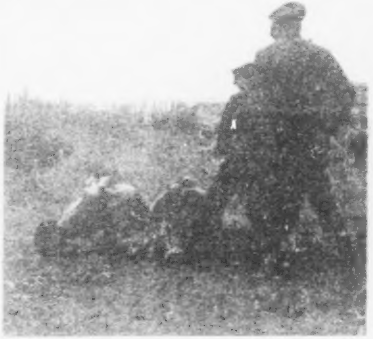
The Chinese exile community was divided over the claim. Hai Ching Xhao, a spokesman for the Independent Federation of Chinese Students and Scholars, said Bush had "put the profit of a few companies ahead of human rights." Democrats in Congress may try to limit the extension to six months—and force Bush to certify that China is doing better on human rights before he extends his blessings again. ■

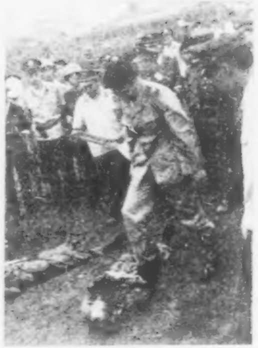


**Out on the killing fields, an application of Chairman Mao's axiom that power comes from the barrel of a gun.**

*(Counterclockwise from top) Policemen flank Wang Guiyuan and Zhou Xiang Cheng; Wang is constrained as he leaves the courthouse; preparing to fire; shots; a kick at the bodies*







Mr. **Ye**. This is the execution of two so-called counterrevolutionaries, a very vague crime in the Chinese so-called law. And the other thing I want to call your attention to is also a very recent article in the Reader's Digest, which gave us a chilling record of how people are still languishing, dying in the bamboo gulag. This was also in a very recent issue of the Reader's Digest. I want to submit this as well.

Chairman **Gibbons**. Without objection we will be glad to receive it.

[The Reader's Digest article follows:]

69TH YEAR Reader's Digest JUNE 1990

*An article a day of enduring significance, in condensed permanent booklet form*

Special Report

# Into the Bamboo Gulag

BY FERGUS M. BORDEWICH

*The following report profiles just a few of the political prisoners who have disappeared in the People's Republic of China. No one knows their exact number. Estimates range from hundreds of thousands to 20 million prisoners over all. Many languish in jail, while others are exploited as slave labor. They mine coal in Sichuan, clear tundra in Heilongjiang, forge steel in Liaoning, plant cotton in Xinjiang. Many are guilty of nothing more than calling for what Americans take for granted: freedom. Their numbers have swelled with the arrest and imprisonment of an estimated 6000 students and others who protested for democracy in Beijing a year ago this month.*

*After extensive interviews with eyewitnesses and survivors of the labor camps, journalist Fergus M. Bordewich takes us into the Bamboo Gulag—a system so secret that even those within it don't know all its tentacles. But it is by every estimate the most far-reaching system of political prisons in the world.*

PHOTO: © PHOTRI

LEAVE YOUR NAME at the door. You have become a number. If you stay long enough, you may forget that you ever had a name.

You and 30 others share a 20-by-20-foot cell in Beijing's infamous Banbuqiao Prison. The walls are stained with crushed ticks, fleas and bedbugs, and the floor is covered with mucus and spittle.

All day you sit on your dirty cotton mat. You're not allowed to move. You're not allowed to talk. You're allowed to get up only to use the toilet. Once a day.

The guard blows a whistle that tells you when to sleep and when to wake. At night, you are packed together so tightly that everyone has to turn at the same time.

No one bathes. You are given one small bowl of water each day. You can either drink it or wash with it. You drink it.

Twice a day, you are given a couple of pieces of turnip in hot water. They call it soup. You're so hungry you vomit bile. Your energy diminishes day by day, until you are unable to walk without holding onto the wall.

IN 1980 Wang Juntao ran as an independent candidate in China's first contested election since 1949. Although he lost, he told supporters, "If we want democracy, we've got to show people how it's done."

Later he established one of China's first independent educational programs so working people could study in their spare time. Then he helped set up an influential institute that urged free-market capitalism.

He could have joined the Communist Party, but he knew that if he did, he would have to support the regime. If he was to be an official, he wanted to be elected freely.

The Democracy Movement of 1989 was the opportunity he had dreamed of. He gave the students food and published their daily newsletter. He helped organize hundreds of Chinese journalists to join the demonstrations, to call for freedom of the press. That helped turn the student protest into a vast popular outpouring of support, as doctors, teachers, workers and even delegations from the police and the Communist Party school began marching to Tiananmen Square.

He also set up the "underground railroad" that enabled some of the student leaders to flee to the West after the military crackdown on the night of June 3.

Wang stayed on in China to help others escape, until it was too late to save himself. He eluded the police for three months but was arrested as he was about to cross the border into Hong Kong. By October he had disappeared into the Bamboo Gulag.

TO STAY SANE, you silently recite poems to yourself. You try to remember songs. You dream of your family. You hold fast to your memories of last spring when you went to Tiananmen Square and demonstrated for democracy, for an end to Communist oppression. After the regime cracked down, you saw the hundreds who lay dead in the streets. Then the government launched a ruthless roundup of those who had helped organize the demonstrations. Soldiers threw you into the back of a truck like a sack of rice and took you to Banbuqiao.

You've heard that scores of people were secretly killed for taking part in the Democracy Movement. You know three Shanghai workers were executed for protesting after a train ran over unarmed pro-democracy demonstrators. You know about the teacher who was sentenced to life in prison for flinging paint on Mao Zedong's portrait in Tiananmen Square. You are afraid.

LIU XIAOBO was a visiting scholar in the United States last year. He didn't have to go home. But when news of the Democracy Movement reached him, he knew he had to help.

He flew to Beijing in April and threw himself into the movement. He was one of the first nationally known intellectuals to side publicly with the students. Many others followed his lead.

Some say his June 2 speech was the most important of the entire movement. Liu has a stammer, but it didn't stop him. The thousands of young faces gave him courage as he stood in the center of Tiananmen Square, and his words roared out over the jerry-built public-address system:

"We advocate the peaceful democratization of China. We seek to end the rule of the bayonet and the lie! We must now build a new politics, free of enemies and hatred, based instead on tolerance and compromise, and functioning through discussion and the electoral process."

The government accused Liu of advocating armed rebellion. The truth has never mattered to the Communists.

If the government executes a leading thinker, it could be Liu Xiaobo. He was the most outspoken, and the regime may kill him to intimidate others, to remind the people of China that anyone can be destroyed for his ideas.

He, too, has disappeared into the Bamboo Gulag.

YOU HAVE BEEN held incommunicado for months. The law says that your family must be notified of your arrest—unless that would "hinder the investigation." Your family has not been notified.

Your trial is just a formality anyway. A Party-dominated committee decides the verdict before the trial even begins. Releases and acquittals are rarely on the agenda.

In the courtroom, you are not allowed to call witnesses, see the evidence against you or challenge your accusers. And you are not allowed to remain silent in protest.

The judge asks the same questions over and over: "Did you plot to overthrow the Communist Party? Do you admit to being an enemy of the people? Do you confess you set out to attack the state?"

A sign hangs over the courtroom: "Leniency to those who confess, severity to those who resist." Guilt is presumed, and any attempt to argue your innocence is taken as further proof of guilt.

Don't expect justice here. This is a Chinese Communist court.

WANG DAN was just 20 years old when the Democracy Movement began. He was shy and quiet, happily studying history at Beijing University. He never expected to become the leader of a revolution.

He loved China deeply, but knew there was something terribly wrong with the way it was governed. The constitution promised free speech, but the authorities blatantly violated that guarantee. Finally he realized that true democracy could be guaranteed only when dissenting views could circulate freely, and only when opposition parties were allowed to exist.

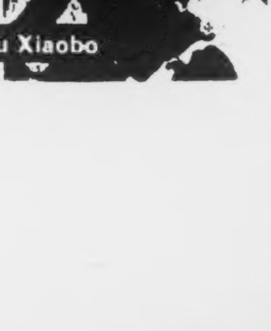
After the last government crackdown in 1987, Wang was a key figure in keeping the Democracy Movement alive. He established the most important democratic discussion club at Beijing University. In those days it was a thrill just to be able to say the word *democracy* aloud. Hundreds of students met leading dissidents at the club and for the first time in their lives began to talk openly about human rights.

The club played a crucial role in the student alliance that became the Democracy Movement. When the students of Beijing University led the march toward Tiananmen Square, Wang was at their head. He remained a leader of the movement right up to the moment the army tanks rolled into the square.

A month after the massacre, he came out of hiding to meet a Taiwanese journalist. But secret police were tailing the journalist and Wang fell into their net. He has disappeared into the Bamboo Gulag.

FOR THE LAST two days you have ridden in the back of a truck across the sandy wastes of western Qinghai Province, with no sign of life for hundreds of miles. Then, on the horizon, you see a thin red line. It grows larger until it becomes a high brick wall punctuated with

Wang Juntao



Liu Xiaobo

towers. In the towers are soldiers with machine guns and they're pointed at you.

Welcome to your new home. There's a little more space than in the cell in Beijing. This time you live in a room with 40 other prisoners. You're not allowed private possessions: no books, no photographs, no keepsakes, no clothes. Nothing.

Twice a day, you're given one piece of rock-hard corn bread, some turnips and cabbage, and hot water. You're supposed to get four ounces of pork every week, but camp officials steal half of it.

You dig irrigation ditches from sunrise to sunset, seven days a week. When there is a full moon, you work at night too. You come to hate the moon. In winter, the temperature drops to 40 below zero. But you must keep on hacking ditches from the frozen soil.

HAN DONGFANG was a simple worker, a maintenance man for the state railway. He was tired of being treated like a piece of machinery and sick of watching Communist Party officials get rich while the people suffered.

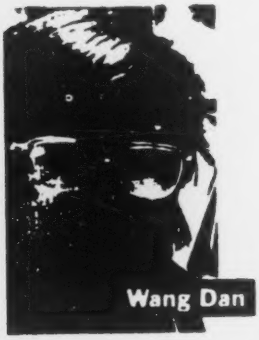
The students in Tiananmen Square gave him the strength to stand up for himself at last. There and then, in the square, he made the first speech of his life, denouncing the state's exploitation of workers.

On May 19, he and a group of other dissident workers set up Communist China's first free trade union. Since the Communist Party calls itself the party of the working class, he struck at the heart of the Communist state. Inspired by his actions, others formed similar unions across China.

The night before government troops invaded Tiananmen Square, the atmosphere in Han's tent was tense. His young bride huddled nearby. "I'm not afraid to die," he told a friend. He hoped there would be an international outcry if the government moved against them.

Han disappeared into the Bamboo Gulag and has been in solitary confinement for months, gravely ill.

YOU LEARN TO FEAR the guards. They consider you, a political pris-



Wang Dan

Han Dongfang

Wei Jingsheng

oner, lower than a murderer or thief. They don't wait for an infraction of the rules to punish you. They tie your elbows behind your back with a wet thong that tightens as it dries. After an hour, you go numb. If the thongs are left on too long, you could be crippled for life.

"You're not grateful enough to the Communist Party for trying to rehabilitate you," they say. "You must learn more respect!"

The next time guards push wires through the flesh of your ankles; they put an iron band around your skull and tighten it until your head cracks. Then they handcuff your arms underneath one leg, raising it tight against your chest. They leave you like that for days, sometimes weeks.

No one escapes from the camp. There's nowhere to go, just sand in every direction for hundreds of miles.

One prisoner tried. They tied his arms behind his back and hung him from a metal hoop. His screams were heard all through the night; by morning, they had stopped. Though he was still alive when guards took him down, his arms were useless.

Gradually you lose your sense of time. Months go by . . . or are they years? You feel as if you've been buried alive.

WEI JINGSHENG was considered by students to be the father of the Democracy Movement. In fact, a prelude to the movement came when leading intellectuals petitioned for his release.

He once believed in Communism. But as he traveled around China, he saw that Communism had brought poverty, oppression and suffering. He saw naked beggars crying for scraps of food. He saw honest men and women killed for speaking their minds. He learned that Mao's Great Leap Forward had so impoverished people in Wei's own ancestral province that some had resorted to cannibalism.

During a brief period of openness in 1979, he founded an independent magazine. It declared that the Communist Party could never reform itself. "We need no gods or emperors," he wrote. "We do not want to be instruments used by autocrats to carry out their wild ambitions."

At the time, other dissidents criticized his outspokenness. But by 1989, hundreds of thousands of demonstrators were echoing his words in Tiananmen Square.

Wei disappeared into the Bamboo Gulag in late 1979. Since 1980, he has been kept in complete isolation. The authorities say that his "rebellious spirit" would corrupt other prisoners. There are reports that for the last seven years he has only been allowed out of his cell once a month for exercise.

Some say that his hair and teeth have fallen out, that he has lost the ability to speak. But he is alive.

He defies the Communists to break his spirit. No matter how long they keep him, he will never give in.

As THE SLOW TORTURE of the Gulag brings you face to face with death you wonder, has the world forgotten you? You wonder especially about the United States, whose ideals served as the beacon of the Democracy Movement.

You remember the simple words of Abraham Lincoln that demonstrators shouted in Tiananmen Square: "Government of the people, by the people, for the people." And you dream of the Goddess of Democracy, the students' own Statue of Liberty, who stood briefly before government soldiers toppled her.

Where is America now?

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*President Bush believes we should maintain good relations with the rulers of China, one of the world's most formidable powers. Last December 10, International Human Rights Day, he sent National Security Adviser Brent Scowcroft and Deputy Secretary of State Lawrence S. Eagleburger to meet with the Chinese leadership in Beijing. The U.S. officials were shown on Chinese television, smiling and toasting Li Peng, mastermind of the Tiananmen massacre. The Chinese press quoted them as saying the two countries should "not exhaust ourselves in placing blame for problems that exist."*

*Since 1949, China's masters have imprisoned or killed tens of millions of China's people. Now they want Western loans and assistance. They want to export products—textiles, machinery, consumer goods—some made by political prisoners. They pretend that there is no gulag, that there are no prisoners of conscience, that the Tiananmen massacre never happened.*

*But as we have learned from recent history in other communist lands, there can be no good reason to coddle a regime that slaughters its unarmed citizens. The lesson is to keep faith with people—not tyranny.*

*Bullets and blood may have silenced the heroes of Tiananmen Square—for now. But they will be back, again and again, as long as freedom is suppressed. As the world's beacon of democracy, the United States must not ignore their cause—or their sacrifice.*

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## Clothes Calls

ON A SHOPPING SPREE for some new lingerie, I took my selections of silky underthings to the cashier. He rang up my purchases and then handed each garment to an obviously new bag boy. The teen-ager grew red in the face as he tried to remove the underwear from the hangers. Looking defeated, he turned to his co-worker and asked, "How do you get these things off?"

Replied the cashier, "Your day will come, young man. Your day will come."

—Contributed by Margie Hovde

Mr. **Ye**. I know today we are talking about a very specific issue, about the MFN, and I know you have already heard tons of opinions, both pros and cons, on this issue which range from one pole all the way to the other. President Bush said, yes, give it to China without any conditions. Many American institutions with business interests in China have already spent big dollars to promote their cause, not incomprehensibly because they are promoting their business where even bigger money is involved.

Winston Lord, former Ambassador of the United States to China, said, "If you want to give it to China, have it conditioned." Zbigniew Brzezinski, former national security adviser to President Jimmy Carter, says drop it. This was in the Washington Post.

If you don't want to listen to politicians, if you want to listen to the voice of the American people, what are they saying? Most recently, earlier this month, we have a poll conducted by the New York Times and CBS, and according to this poll, only 16 percent of those people polled are in favor of granting the MFN to the People's Republic of China, in comparison to more than 40 percent of those polled in favor of giving MFN to the Soviet Union.

So with all those opinions around, what particular points do I have to say on this matter? Let me say that if the following three points can be remembered after what I said, I would consider that I have not left the coolness in Maine behind and come down to the heat in Washington, D.C. in vain.

The three points are: Number one, the issue of free emigration. Number two, the issue of economic effects. Number three, the issue of double standard. And let me just briefly talk about each of these points, because I don't want to follow my written script. You all have my written script there. I just want to give some brief summary of what I want to say.

The first point, I don't think I need to dwell too much upon this point about free emigration. We are still talking about the current American law. If you are going to make an amendment to the Jackson-Vanik amendment, that is a different matter. But according to the present law, the President of the United States cannot grant a waiver in consideration of any other effects. He can only grant a waiver if it promotes free emigration. And I don't even have to tell you that there is no such thing as free emigration in China.

Let me just quote briefly one thing here. A recent analysis of the Law Division of the Library of Congress, Freedom of Emigration of Chinese Citizens and the Chinese Law and New Policy and Traditions, an overseas study, dated May 15, 1990, concludes that there is "no freedom of emigration under the Constitution." Moreover, the study found, and I quote,

> The vagueness of certain important traditions in exit and entry legislation, moreover, further allows the authorities wide leeway in determining who shall be allowed to emigrate. Also, figures for certain areas of the country in the first quarter of this year seem to show a dramatic decline in the rate of approval of applications. Finally, more recent stipulations in related policy documents in regard to study abroad indicate that while there is no emigration fee, generally speaking students recently graduated from universities must pay a heavy sum before they can apply to go abroad.

I don't have to elaborate on this issue, and I am sure you will also hear something from Holly Burkhalter of Asia Watch, who made wonderful testimony the other day in front of the Subcommittee on Asian and Pacific Affairs on this issue. I am sure it has already been included in the Congressional Record. And I hope you can also take a minute to read the personal story, a very touching story attached to my written script of Mr. Heping Shi, whose wife, after realizing that she was not allowed to join her husband, in a fit of madness almost strangled their 9-year-old daughter. And even today Mr. Shi's wife and daughter are still in China, trapped there because Mr. Shi refused to make a written acknowledgment that he will not get involved in prodemocracy activities in this country. So I don't have to draw too much on this. According to the present law, it is against the current law to grant this waiver to China.

The second issue, economic effects. I know you have already heard many different opinions on that, but basically very few have said that there is no economic effects. But I think the economic effects have been severely exaggerated, almost out of proportion, to the extent that it has almost become a caricature, a joke.

Let me elaborate a little bit on this within my limited time. We have on our board, at a recent meeting, among the members of the federation, we have professors of economics, we have postdoctorate fellows of economics, who come to the conclusion that all this has been exaggerated. Let me just say three points.

First, the impact on China. The China Business Council and American Chamber of Commerce in Hong Kong argue that the loss of Chinese exports would be substantial, and millions of workers would be laid off. Based on their study that found the granting of MFN in 1980 to have resulted in a 25-percent increase in Chinese exports to the United States, they argue that the loss in exports to be at least 25 percent. In our view, this number is an exaggeration of the potential loss in Chinese exports for the following reasons—four reasons. I won't go into details because I know you are all learned economists.

Number one, it fails to take account of the quota rent earned by China on its exports of textile and apparel products to the United States which did not exist in 1980 when MFN was first granted. Therefore, tariff increases would only reduce rent earned but would not cause China to reduce exports.

Number two, it fails to take account of possible actions by Chinese Government in response to the removal of MFN. To offset any reductions in exports, the Government of People's Republic of China may devalue its currency against the dollar.

Number three, it fails to consider the trade diversion effect.

Number four, it fails to consider the fact that even after tariff increases, China remains one of the lowest cost countries for imports in the world. The average hourly labor cost in China is something like 18 U.S. cents, in comparison to, for example, that of Mexico which is US$1.50. Even after tariff increases, China will still be an attractive source of supply.

Therefore, we believe that reduction of Chinese exports to the United States would not be substantial when MFN is removed. It is estimated at less than 10 percent.

Number two, its impact on Hong Kong. Given our analysis that Chinese exports will not be severely impacted, the speculative disastrous predictions by U.S. and Hong Kong business interests are greatly reduced. However, the impact from Hong Kong will come from two sources only: first, earnings from transshipment, including freight and insurance. This, according to our study, only represents about 0.05 percent of the Hong Kong GDP. Let me repeat, 0.05 percent of Hong Kong GDP. Number two, exports by Chinese firms with Hong Kong investment. Exports by joint ventures in China are less than 10 percent of total Chinese exports. In almost all cases, the joint ventures are 50-percent owned by the state sector. Therefore, if Hong Kong owned all the foreign joint ventures in China, which is impossible, their exports would only represent 5 percent of all Chinese exports, which is about US$400 million. The overall effect is less than 1 percent of the Hong Kong GDP.

Most importantly, those who argue that the revocation of China's MFN status will harm Hong Kong by contributing to a crisis in confidence, I think they have set their sights on the wrong target. The crisis in confidence was triggered by last June's massacre and is reinforced by Beijing's political repression and orthodox Marxist economic policies. If you want to restore confidence in Hong Kong, you must look for ways to encourage a change in Beijing's policies.

Last but not least, the impact on the United States:

(*a*) Consumers: Prices paid by consumers would not change when tariffs were raised on Chinese imports because China is a price taker in the U.S. market. Any fall in quantity supplied from China would be quickly made up by increases in supplies from competitors.

(*b*) Business: Profits of importers would be reduced by tariff increases, but tariff revenue of the Federal Government would be increased. The amount of tariff revenue would increase to over 2 billion American dollars from a few hundred million, according to some estimates, and this would directly reduce the increasing trade deficit.

(*c*) Chinese retaliation: China might retaliate by switching imports away from U.S. suppliers. For the current Government, this would be desirable politically but disastrous economically. Some of the U.S. products have few substituted, like aircraft, and others prove to be stable sources of supply, like grain, that are important to domestic stability. The Government has to consider the consequences of such retaliations.

(*d*) Trade deficit: By aggressively pushing exports to the United States while clamping down on imports, China now runs the sixth largest trade deficit with the United States—$6.2 billion in 1989. By 1991, China's trade deficit with the United States will be second only to Japan if this current condition goes on.

So, in conclusion, the economic effects are not what they seem. I think there has been serious exaggeration on that issue.

Last, but not least, the issue of double standard. Let us say if the massacre had not taken place in Tiananmen Square in Beijing, if the massacre had taken place in the Red Square in Moscow, if the chilling execution we just saw on those pictures had taken place not in Deng Xiaoping's China but, say, in Fidel Castro's Cuba, I doubt if the committee would even hold a hearing regarding whether you should grant MFN to the Soviet Union or to Cuba.

Is Mr. Fang Lizhi, the astrophysicist now taking refuge in the American Embassy, is he any different as a champion for freedom and human rights? Is he less a champion than people like Nelson Mandela of South Africa or the late Andrei Sakharov of the Soviet Union? Why give this different standard? Why provide this kind of double standard which prompted Mr. Gorbachev to ask the question during his recent meeting with the congressional leaders, why should you give China MFN after Tiananmen? Should we fire a few shots in the Baltic States?

Let me close my statement by quoting very briefly two short anecdotes. I spent more than 6 years doing my Ph.D. in the Boston area. There is a place in Massachusetts by the name of Canton, and there is a story around that area which said that if you will go to the backyard, you dig a hole in the ground, you keep digging, and if you dig hard enough and long enough, you will reach the center of earth. You work hard and you keep working, dig further on, and one day you will reach Canton, China.

I have two points to say about this story. One thing is that China is not that close that you can reach in your backyard. But, on the other hand, it also said that China is also a country on this earth. It is only just on the other end of the earth. We Chinese are not any different in our aspiration for freedom and basic human rights. We are not any different than, say, the blacks of South Africa or those people fighting for freedom in the Soviet Union and the other countries of the Soviet bloc.

Let me conclude with the last statement by quoting a story that I am sure you all are very familiar with. After the big flood, mankind came to the plain of Schnar, and they wanted to make a name for themselves. They wanted to build a city and a tower to reach the heaven. God mixed their languages so they didn't understand each other, and thus they are separated in all parts of the world. Today we still live in different parts in the world. We still speak different languages. But this does not mean that we Chinese are any kind of different human beings in our aspiration for human rights. Please don't do anything—put a stop to the kind of double standard in your dealing with present Beijing regime.

Thank you very much.

[The statement of Mr. Ye follows:]

# STATEMENT OF THE INDEPENDENT FEDERATION OF CHINESE STUDENTS AND SCHOLARS ON THE SUSPENSION OF MOST FAVORED NATION STATUS FOR CHINA

## BEFORE THE U.S. HOUSE OF REPRESENTATIVES
## COMMITTEE ON WAYS AND MEANS
## SUBCOMMITTEE ON TRADE

June 19, 1990

Presented by Dr. Yang Ye
Assistant Professor, Bates College
Lewiston, Maine

Mr. Chairman, Members of the Subcommittee:

Good morning. My name is Dr. Yang Ye. I was born and brought up in the People's Republic of China. I came to the United States in the winter of 1982, after receiving my baccalaureate degree from a university in Shanghai, to work towards my doctoral degree in Comparative Literature at Harvard University. Now I am an Assistant Professor of Chinese Language and Literature at Bates College. I appear before you this morning on behalf of The Independent Federation of Chinese Students and Scholars. The Federation is an umbrella organization that represents over 42,000 Chinese students and scholars throughout the United States. Our group is dedicated to promoting freedom and democracy in China, and we work with our friends at home and abroad, including our friends in Congress, to nurture and support democratic reforms in my homeland. Since the Summer of 1989, I have been commissioned by the Federation to work and do research on the issue of economic sanctions, having given lectures and published articles on this topic.

The Independent Federation of Chinese Students and Scholars strongly opposes the extension of most-favored-nation status to China at this time, and we are grateful to you for granting us the opportunity to explain our views to this Committee. We agree with the Presidential determination that China has not met the threshold requirements of the Jackson-Vanik Amendment under U.S. law. However, we believe that so long as China detains tens of thousands of non-violent pro-democracy prisoners, refuses to allow free emigration, maintains a de facto martial law over Beijing and Tibet, persecutes religious groups, harasses the Chinese students in the U.S., employs forced labor, interferes with the Voice of America and imposes severe restrictions upon the mass media, it should not be granted a waiver of the Jackson-Vanik Amendment in order to qualify for MFN status. Extending MFN status at this time would not only harm the already deplorable human rights situation in China, but would also represent a serious blow to reformist and progressive elements in China today.

We recognize, as Congress did when it enacted the Jackson-Vanik amendment, that MFN status can -- and should -- be a powerful tool in the effort to secure the most fundamental human rights for those who live under the communist rule. Congress has wisely decided that certain regimes should not automatically enjoy most favored nation status -- rather, they must earn it. China's leadership has already demonstrated the importance it places on retaining MFN status by taking steps such as the release of some political prisoners to keep this trading status. It is no coincidence that the leadership lifted martial law in Tibet and then released political prisoners as the possibility of losing MFN status appeared ever more likely. However, we believe significant human rights progress is warranted to preserve their trade status.

Because of the importance China attaches to MFN status, an unconditional renewal of MFN status, as the President has proposed, would send the wrong message to those in Beijing. It would signal to the hardliners that senior leader Deng Xiaoping was correct when he said that the government need not fear Western reaction to Chinese human rights abuses, for the West would surely compromise its principles when they stand in the way of corporate profits. It would signal that the human rights situation in China is acceptable. Worse, it would signal the abandonment of those who languish in punitive detention because they dared to stand up for democracy, and would ensure that the present repression of even the most basic human rights will continue.

I doubt that anyone here -- or in the Administration --is willing to tell the American people that an authoritarian regime that denies its citizens the most fundamental human rights, including the right to emigrate freely, holds captive countless political prisoners, and summarily executes political opponents should be rewarded by continuing a privileged trading status. This is borne out by the recent New York Times/CBS News Poll which shows that the American public disagrees with the Bush Administration giving a more favorable trade treatment to China than to the Soviet Union. Only 16% of those polled believed that China should receive a more favorable trading status than the Soviet Union.

This nation has long insisted that those who enjoy benefits such as most favored nation status must conform to certain minimal standards of decency in their internal political behavior. As America demonstrated when it revoked Romania's MFN status, when it imposed sanctions on South Africa and Poland, and when the Senate recently voted to impose sanctions on Burma, countries that refuse to respect the fundamental human rights of their citizens are not permitted to enjoy the full privileges and benefits of the international community. Thus, before MFN status is again extended to China, certain minimal conditions must be met. We suggest the following criteria as a minimum set of preconditions before most favored nation status is again extended to China:

1. Immediate and unconditional release of all political prisoners arrested during and after the 1989 student movement as well as the political prisoners arrested in 1979. The free world still does not know the actual numbers or identities of prisoners confined after last June, or their conditions of confinement. Other political prisoners have been confined since the Democracy Wall movement in 1979. These people must be released before the U.S. continues "business as usual" with China. The United States should not allow Beijing to retain a secret pool of prisoners from which it can periodically select a few for public release whenever diplomatic favors are sought. In addition, a list of those killed last June should be released.

2. Codification of Emigration Law. Continued trade benefits should not be extended to China until the Chinese government passes and implements a law permitting free emigration in accordance with international standards. In the case of the Soviet Union, where substantial gains in the freedom of speech and the press have been achieved, the US is still insisting that emigration legislation be enacted before MFN is granted. An exception should not be made for China.

3. Lift restrictions on college students in China. After the Tiananmen massacre, the government imposed numerous restrictions upon students. For example, under one recent set of regulations, students must work for five years before they may pursue graduate studies abroad. Under another program, recent graduates have been forcibly sent to distant rural areas for permanent work assignments. These assignments are, in effect, a form of internal exile. The persecution of students must stop before this country extends most favored nation status on China.

4. Release of Foreign Embassy captives. It is simply unacceptable to consider extension of MFN status while Fang Lizhi and Li Shuxin remain virtual prisoners in the U.S. Embassy. They should be permitted to leave the U.S. embassy in Beijing and regain their freedom of travel and residence. Their release should not be premised upon an agreement which would effectively muzzle them by denying the right to speak out in opposition to current PRC policies.

5. Lifting of de facto martial law in Beijing and Tibet. MFN should not be granted while residents of Tibet and Beijing are subject to de facto martial law and are unable to move freely about their neighborhoods. The military and police presence should be significantly reduced.

6. Stop harassing and intimidating Chinese students in the U.S. Recently we obtained a secret document from the Chinese government which contains details of the government's plan to harass and intimidate Chinese students in the U.S. This document confirms the numerous reports we received from students in different parts of this country of harassment by Chinese embassy officials. This practice directly violates the Solarz Amendment in current U.S. law and must be stopped.

7. Halting religious persecution. Religion represents a growing force in China, and is perceived by the regime as a threat. The harassment, intimidation and arrest of religious leaders and worshippers -- in Tibet and elsewhere -- is on the rise. This activity cannot continue.

8. Stopping the use of forced labor. In violation of international law, China is one of the few countries that continues to use forced labor. Numerous factories are staffed only by detainees. Privileged trade must be premised upon the absence of forced labor.

9. End jamming of foreign broadcasts. In an effort to control the information available to Chinese citizens, the government has been jamming the broadcasts of the Voice of America. These actions do nothing other than inhibit the free flow of information and ideas, and should be halted before MFN status is renewed.

There are a number of Members of Congress recommending that renewal of the MFN waiver for China be coupled with conditions which the President must certify have been met after a specified period of time. While we truly believe that conditional suspension is the best vehicle to pressure the Chinese government to improve its human rights record, if the consensus of the Congress is to conditionally renew, those conditions need to be substantial in order to achieve a meaningful effect. The conditions presented above are the most important and are purposely focused upon actions that will bring about an improvement in people's lives, be they coupled with suspension or renewal. We are not proposing onerous measures or attempting to bring the government to it's knees, as Secretary of State Richard Solomon has depicted our position. But we feel strongly that conditions which relate to economic relations or geopolitical conflicts solely will not affect the human rights situation and will not help those living under the yoke the that repressive regime.

Furthermore, a shorter time-frame than one year should be set for Presidential certification and Congressional review of China's compliance with the conditions. One year conditional renewal is too long. It will once again reinforce in the minds of the leaders that the US is not serious about the conditions and, further, it turns a blind eye to those who will suffer unnecessarily during that year.

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To understand why continuation of MFN is morally indefensible, and a serious setback to the reform elements in China, it is necessary to explore the present situation in China.

## I. China's MFN Status Must Be Suspended Until The Freedom to Emigrate Is Fully Restored.

Under the terms of the Jackson-Vanik Amendment, the President is directed to withhold MFN from any non-market economy that denies its citizens the right to emigrate. The President can either determine that free emigration is permitted or grant a waiver of the requirement if (1) extension will promote the objectives of free emigration, and (2) assurances from the country have been received. It is an extension of the waiver option that the Administration has exercised for China, as China clearly fails to meet the threshold requirements of the Jackson-Vanik Amendment.

A recent analysis of the Law Division of the Library of Congress, "Freedom of Emigration of Chinese Citizens under Chinese Law and New Policy and Provisions on Overseas Study", May 15, 1990, concludes that there is "no freedom of emigration under the Constitution." Moreover, the study found:

> The vagueness of certain important provisions in exit and entry legislation, moreover, further allows the authorities wide leeway in determining who shall be allowed to emigrate. Also, figures for certain areas of the country in the first quarter of this year seem to show a dramatic decline in the rate of approval of applications. Finally, more recent stipulations and related policy documents in regard to study abroad indicate that while there is no emigration fee, generally speaking, students recently graduated from university must pay a heavy sum before they can apply to go abroad.

It should be noted that Jackson-Vanik specifically states that MFN privileges will not be granted to any country that "imposes more than a nominal tax, levy, fine, fee or other charge on any citizen as a consequence of the desire of such citizen to emigrate." Students that emigrate to the US are required to reimburse the Chinese government for their education which in most cases has been paid for by US institutions and programs or from personal family funds. This amount ranges from Yuan$4000 to Yuan$6000 per year. The average yearly income of a Chinese citizen is Yuan$1000.

As a result, as a result no one is suggesting that China has satisfied the requirements of the Jackson-Vanik Amendment. The only question is whether the President should continue to accept Chinese assurances on emigration and extend the waiver. Will further extensions in fact lead to freer emigration? Assistant Secretary of State Richard Solomon in recent testimony before the House Foreign Affairs and Senate Foreign Relations Committees, points to the fulfillment of US immigration quotas for China as evidence that Chinese assurances should be accepted. US immigration quotas are not a benchmark against which freedom to emigrate can be measured and should not be relied upon to determine China's eligibility for the waiver. Rather, it is China's human rights record and their continued inability to meet the Jackson-Vanik requirements that are the proper measures upon which to base this decision. Jackson-Vanik was enacted because of Congressional concerns on human rights and MFN was extended to China to encourage the growth of the private sector and reduce the stat-controlled sector in China. Given the reversal of economic and political reforms by Chinese leaders subsequent to the massacre in Tiananmen Square, it is time to examine whether the original or implicit conditions under which these privileges were extended to China in the first place still apply. Our conclusion is that they no longer do.

After the June 4 massacre, the Chinese leadership identified the burgeoning private economic sector, rather than its ossified political system, as the breeding ground of political instability. Consequently, it has tightened the screw on the private sector. Its recent campaign against the private sector in China is politically, not economically, motivated.

First, the present post-Tiananmen Chinese leadership in Beijing has, since last summer, embarked on a systematic and deliberate campaign to reverse the market-oriented economic reforms of the 1980s. In sharp contrast with what is happening economically in Eastern Europe, where free markets and privatization are becoming dominant, the Chinese government is attempting to re-centralize the economy. Specifically, it has re-centralized, to a great extent, its foreign trade, the banking and credit system, production planning, material allocation, pricing and other key elements in the economy.

A recent government regulation prohibits private enterprises from doing business in such sectors as finance, foreign trade, military supplies, real estate, railways and ocean shipping. In effect, this has kept the genuinely private sector in China from receiving any consequential benefits from the U.S. MFN status. At the same time, the Central Government's re-centralization has led to the demise of 3 million private businesses in 1989 alone. It has also imposed high taxes on the surviving private sector.

This is not a questions of commerce but rather inexplicably involves the consideration of the human rights in China during the past year. It is suspension that will lead to freer emigration, not renewal. With an argument to be made that repression has economic costs, the moderates may be able to turn China back on the road to reform. In turn, this will create a better environment for trade ans investment and it is under these circumstances that freer emigration will flourish. Kowtowing to the Chinese is not dealing from a position of strength and will not result in freer emigration.

We ask that you remember Fang Lizhi and his wife, Li Shuxian, stranded in the American Embassy in Beijing since the day after last June's massacre. Remember how the Administration's concessions have not brought about any reciprocal acts of good faith. Consider whether this regime is prepared to allow freer emigration. Finally, take note of the internal Chinese government document we recently released which sets out the new policy banning family members from visiting Chinese students in this country who have participated in or led democratic activities.

In the past, the US has relied upon Chinese assurances on emigration in order to confer MFN status. In light of China's transgressions of the most basic of human rights during the past year, the value of those assurances has dissipated. In addition, Chinese government assurances on arms sales to the Mideast have proven to be less than reliable. Assurances are no longer enough. At the very least, continued extension of MFN to China should include a requirement that China codify its emigration policy -- the same as the Administration is asking the Soviet Union to do.

## II. Double Standard.

As Congress considers whether China continues to warrant a waiver of the Jackson-Vanik requirements, we ask only that it treats China no differently than it treats other countries. The Administration refusing MFN to the Soviet Union while granting it to China amounts to a massive double standard that is especially glaring if you compare the recent performances of the two countries. In the case of the Soviet Union , where freedom of speech, freedom of the press and free elections have moved beyond meaningless rhetoric in a Constitution, the US is insisting that the Government enact emigration legislation before moving ahead with the Trade Pact and MFN. If it was the Soviet Union that has massacred its people in Red Square last year, continued to arrest and execute its citizens over the past year, and had two prominent human rights activists -- say Andrei Sakharov and Natan Sharansky -- holed up in the American Embassy in Moscow, the US Government would not even be considering extending MFN to them. Why then are these abuses insignificant enough in the cases of China to warrant not even a strong rebuke? There is a disturbing tendency, because of historical legacies, to demean the value of human rights in Asia as opposed to Europe. Consistency, and the law, demands that the President hold China to the same standard -- and if the President will not do so, then Congress should.

## III. China's Current Human Rights Record Requires Suspension of MFN Until Minimal Preconditions Are Met.

Less than one year ago the world watched in horror as participants in the democracy movement in China were brutally massacred and suppressed by the current regime. We were all shocked and appalled to see troops fire indiscriminately upon peaceful protesters and curious onlookers alike. Thousands of unarmed civilians were killed, and many more injured last June. In the aftermath, scores of young activists were summarily executed. Thousands upon thousands of political prisoners were detained, without trial or access to legal counsel. These prisoners underwent brutal interrogations, and many suffered severe beatings with electric batons and rifle butts.

The gross violations of human rights did not end with the events in Tiananmen Square. Today, de facto martial law exists in Beijing and Tibet and a repressive atmosphere lies heavily over the rest of the country. The central government will not tolerate the exercise of even the most basic political and civil rights.

Innocuous political gestures provoke grossly disproportionate responses. For example, on December 9, 1989, during General Scowcroft's second visit to Beijing, seven students knelt in front of the Central Broadcasting TV Studios carrying a banner that asked "why are we so poor" to express support for last year's student demonstrations. They were beaten up and then arrested. Of the arrestees, two reportedly were sentenced to death; the other four received 20 year prison terms. On June 4, 1990, a man was arrested in Tiananmen Square. His crime? Trying to display a banner to a Canadian television cameraman on the anniversary of the massacre in the Square.

Those who publicly disagree with the central government risk imprisonment or worse. While China's propaganda machine trumpets the release of political prisoners the fact remains that some of these people are rearrested for continued prodemocracy activities and thousands of political prisoners still languish in Chinese jails. Their conditions are invariably harsh and frequently degrading. Severe psychological pressure is often accompanied by savage beatings.

The list of other human right violations is lengthy. The State Department's Human Rights Report and documents issued by the human rights community provide information on the persecution of unofficial religions; the use of arbitrary arrest, detention and exile; the use of slave labor; and the suppression of numerous other internationally recognized human rights. "Virtually all internationally recognized human rights discussed in this report are restricted, many of them severely," the report said.

But this regime is not satisfied with political repression and terror within its borders. Secret government documents reveal that the government is engaged in a large scale program to systematically harass and discredit overseas Chinese like ourselves, who have done no more than exercise the rights to think freely and voice our opinions. The government perceives this to be a "life and death" struggle, and appears ready to utilize whatever means it feels is necessary to win this struggle.

The Chinese Constitution guarantees freedom of speech and press, however, domestic dissemination of information is severely circumscribed. All media are State owned, rigidly controlled, and used primarily for party and government propaganda. Radio transmissions from abroad are regularly jammed. Arrests and executions continue. The day after President Bush announced his decision to renew China's MFN status, Liu Qing, one of the most prominent dissidents in China and who was released at the end of 1989 after having served 10 years for advocating human rights and democracy, was rearrested. Shortly thereafter, three Chinese dissidents, including the pop singer and outspoken critic of the Chinese Government, Hou Dejian, mysteriously "disappeared."

To us it is unthinkable that this country would even consider extending MFN status to China while these gross abuses of human rights continue to exist.

## III. Political Effect of Temporarily Suspending MFN

The impending expiration of China's MFN status presents America with an opportunity. Refusal to extend MFN status to China would do more than pressure China to improve its human rights record. It provides leverage to the reformers in China in that it persuasively supports the argument that political repression carries with it unacceptable economic costs. Conversely, a continuation of MFN privileges would only strengthen and embolden the orthodox Marxist clique that holds power in Beijing today. It would prove that no central government action -- no matter how heinous -- will trigger an end to business as usual with the U.S.

Since the June massacre, the Chinese Communist Party has been struggling to dispute Party moderates' arguments that (1) the crackdown bears devastating political and socio-economic costs, and (2) failure of the top leaders to admit it was a tragedy will further damage China's image in the international community. At the same time, they have mobilized political propaganda resources such as the government-controlled media and political indoctrination sessions to coerce the people into believing that "the leaders made the right decision, thus saved the country, and history will prove it." It is from within this doctrinaire environment that moderates must fashion their strategies for reform. The Administration's continued tolerant attitude toward egregious human rights violations does not advance the cause of the democratic movement in China. As Winston Lord, former US Ambassador to China has stated, "If you seem too forgiving of what [China's leaders] have been up to, you rob the moderates in China of the argument that suppression entails costs overseas. You hurt them in the internal debates."

Temporarily suspending MFN will:

- Support the moderates' argument and strengthen rather than weaken their position in the internal bargaining process.

- Help moderates argue that the only way out of the current political plight and economic difficulties is to honor the reform program.

- Support the reformers argument that fundamental economic problems cannot be addressed without pushing for political development.

- Send a clear message that the US cares deeply about linkage between MFN status and human rights.

## IV. Economic Effect of Temporarily Suspending MFN.

While everyone condemns China's human rights violations and recognizes the complete deterioration of the reform programs of the 1980s, there are persistent concerns about the economic costs that may be inflicted upon the people of China and Hong Kong should MFN not be renewed. They support the extension of MFN because they think the cost too high. There is no single criteria by which to judge how high a cost is too high. We believe that the projected damage and losses that business will bear is greatly exaggerated. The impact of tariff increases would most likely be reflected in reductions in profits of US importers, sometimes stated to be as high as 400% to 500%, and Chinese suppliers reduction in exports would be quite small.

### A. Impact on China.

The China Business Council and the American Chamber of Commerce in Hong Kong argue that the loss of Chinese exports would be substantial, and millions of workers would be laid off. Based on a study that found the granting of MFN in 1980 to have resulted in a 25% increase in Chinese exports to the US,they argue the loss in exports to be at least 25%. In our view, this number is an exaggeration of the potential loss in Chinese exports for the following reasons:

1) It fails to take account of the quota rent earned by China on its exports of textile and apparel products to the US which did not exist in 1980 when MFN was first granted. As you are aware, the US has quota restrictions on imports of textile and apparel from China. As a result of the restriction, prices paid by US consumers are much higher than the amount required to cover production, transportation, other costs and a normal profit. The difference, called quota rent, is transferred to the exporting countries. China is one of the lowest cost countries in the world and most economists believe the quota rent transferred is quite substantial. China's rent is estimated at between 50 to 80 cents on the dollar.

Therefore, tariff increases would only reduce rent earned, but would not cause China to reduce exports. China exports about US$3 billion worth of textile and apparel products to the US on which an estimated US$1.5 to US$2 billion is earned as rent. As a result, a 50% increase in tariffs would not effect production-related costs. In addition, as 90% of exports originate from the state sector, the great benefactor of the rent is the Central Government, not the private sector in Southern China.

The differences in enterprises in China are as follows:

(a) State-Owned. This group of enterprises accounts for an overwhelming share of total Chinese exports to the US, and is the largest contributor to the state budget in the export sector. Reductions in either export volume or profits of this group would reduce this contribution.

(b) Privately or Collectively Owned. This group is quite small. A recent regulation has prevented them from doing foreign trade.

(c) Foreign-owned and Joint Ventures. Most firms in this group deal in manufactured consumers goods like toys and domestic electronics and have a large profit margin as mentioned above. Tariff increase are more likely to reduce their profits than quantities of exports. In these firms, Hong Kong capital has the largest stake, followed closely by Japan. The US share is quite small. It should be noted that Japan is also the largest foreign investor in Hong Kong. One of the reasons for Japanese firms to set up shop in China is to get around the issue of trade surplus with the US. The rate of return to these firms is evidenced by their continued presence in China (and the persistent effort of the Japanese firms to resume loans) when the political situation is considered unstable there. Only a substantial premium can induce them to take such a risk.

2) It fails to take account of possible actions by Chinese government in response to the removal of MFN. To offset any reductions in exports, the government may devalue its currency against the dollar. The currency was devalued at the end of 1989 by some 26.8% and exports during the first 4 months of 1990 increased by 16.2%, an increase more than 3 times as large as compared with the same period in 1989. The Chinese government may also cut export taxes and give subsidies to offset the effect of tariff increases. Furthermore, it could reissue export licenses to the several hundred firms whose licenses were revoked after June 4th.

3) It fails to consider the trade diversion effect. During the past 10 years of reform, China has set up an export base and gained experience and established trading relationships in the world market. If exports to the US are reduced, it is certain that trade would be diverted to other markets in the world, if necessary.

4) It fails to consider the fact that even after tariff increases. China remains one of the lowest cost countries for imports in the world. Major competitors of Chinese goods in the US market are Hong Kong, Taiwan, Korea and Singapore, where the average hourly labor cost is US$2.50. On the other hand, the average hourly labor cost in China is only 18 US cents. It is lower than that of Brazil and Mexico (US$1.50), and even lower than that of India, Pakistan and Sri Lanka (40 to 50 US cents per hour). Even after tariff increases, China will still be an attractive source of supply.

Therefore we believe that reduction of Chinese exports to the US would not be substantial when MFN is removed. It is estimated at less than 10%. The associated unemployment would be even smaller, as the Chinese government, a socialist government, allows few enterprises to go bankrupt and does not lay off workers for stability purposes.

Even though the reduction of Chinese exports will not substantial, the impact on the Chinese Government will be considerable. In order to make debt repayment, the peak of which comes in the next few years, the Chinese government will be under pressure to take actions to boost exports when MFN is removed. The pressure comes from the deepening potential for a crisis as a result of the grim domestic economic situation and the poorly structured debt, half of which is from Japan. The government therefore faces a dilemma. If the government chooses to devalue the currency to boost exports, then imports will become more expensive and that may fuel inflation. If it cuts export taxes or gives subsidies to exporters, the budget deficit, which is already a burden, will increase which is already a burden. If it does nothing, repayment of their debt will become a problem. All three outcomes are undesirable to the government, but a choice has to be made. This will strengthen the position of reformers to argue that there is no way out of the dilemma unless reforms are resumed.

The argument that reforms will be hurt if MFN is removed, we think it is not valid. After the crackdown, the reform process in China has been reversed. The Central Government has tightened its control over state-owned enterprises, shut down thousands of privately owned firms, revoked export licenses of hundreds of firms, and restricted foreign exchange allocation. A recent regulation prohibits private enterprises from doing business in such sectors as finance, foreign trade, real estate, railways and ocean shipping, which, in effect, has kept the genuine private sector in China from receiving any consequential benefits from the MFN status. The list of reversals could go on and on. Of course, reformers have not ceases to put forward proposals for reforms, but under a regime whose main purpose is to maintain their political survival, there is no hope for any genuine reform effort. Since there is no reform going on, how can removal of MFN hurt reforms?

B. Impact on Hong Kong.

Given our analysis that Chinese exports will not be severely impacted, the speculative disastrous predictions by US and Hong Kong business interests are greatly reduced. However, the impact from Hong Kong will come from two sources:

1) Earnings from transshipment, including freight, and insurance.

One Hong Kong analyst has estimated that Hong Kong earns 15 cents per dollar on all transshipments. Using the China Business Council's estimate of a 25% reduction in Chinese exports, which we believe would be closer to 10%, then the loss in transshipment earnings would be about $300 million. This represents about .05% of Hong Kong GDP. This is not a significant amount of money.

2) Exports by Chinese Firms with Hong Kong Investment.

Exports by joint ventures in China are less than 10% of total Chinese exports. In almost all cases, the joint ventures are 50% owned by the state sector. Therefore, if Hong Kong owned all the foreign joint ventures in China, which is impossible, their exports would only represent 5% of all Chinese exports, which is about $400 million. The overall effect is less than 1% of Hong Kong GDP.

Most importantly, those who argue that revocation of China's MFN status will harm Hong Kong, by contributing to a "crisis in confidence" have set their sights on the wrong target. The crisis in confidence was triggered by last June's massacre, and is reinforced by Beijing's political repression and orthodox Marxist economic policies. If you want to restore confidence in Hong Kong, you must look for ways to encourage a change in Beijing's policies. Measures that do nothing to challenge the present developments in China but maintain business as usual in the short term most assuredly will not restore confidence in Hong Kong.

C. Impact on the United States.

(1) Consumers. Prices paid by consumers would not change when tariffs were raised on Chinese imports because China is a price taker in the US market. Any fall in quantity supplied from China would be quickly made up by increases in supplies from competitors.

(2) Business. Profits of importers would be reduced by tariff increases but tariff revenue of the federal government would be increased. The amount of tariff revenue would increase to over $2 billion from a few hundred million, according to some estimates, and this would directly reduce the increasing trade deficit.

(3) Chinese Retaliation and US Competitiveness. China might retaliate by switching imports away from US suppliers. For the current government, this would be desireable politically but disastrous economically. Some of the US products have few substitutes (like aircraft), and others prove to be stable sources of supply (like grain) that are important to domestic stability. The government has to consider the consequences of such retaliations. Whatever the Chinese decision, it is unlikely that the US would lose ground to Japan, for Japan does not sell to China most of the products the US has a competitive edge in.

As to the argument that US business will lose future investment opportunity, we submit that investment opportunities are more affected by political stability and reform policies than by MFN. If the military crackdown and reversal of reform policies have not eliminated investment opportunities in China, removal of MFN will not do so either.

(4) Trade Deficit. By aggressively pushing exports to the US while clamping down on imports, China now runs the 6th largest trade deficit with the US--$6.2 billion in 1989. And unlike most of the US's other big deficits, the gap with China is rapidly widening. In February of this year, the trade deficit was double what it was at the same time last year. By 1991, China's trade deficit with the US will be second only to Japan.
The trade deficit is being used to fund the recentralization of the Chinese economy. We know, from current events in Eastern Europe, that it takes large amounts of Western aid to help newly free countries transform their economies from state-controlled to market-oriented. But we do not seem to realize that it also costs the same, if not a greater amount of money and resources, for a government to regressively transform a semi-reformed economy back to the original state-controlled status. The US trade deficit with China is a result of extension of MFN, and unless linked to a significant improvement in human rights, should be considered as an endorsement of China's abusive internal practices.

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In conclusion, MFN is a status the Chinese government cannot afford to lose. That is why it has launched an intensive behind-the-scenes lobbying campaign for renewal of MFN, and have recently released some political prisoners. As the internal government documents we have provided to members of Congress reveal, China is involved in a covert campaign to set up Chinese groups and individuals to send letters and telegrams to Member of Congress. While we recognize that some of these represent legitimate concerns, a great number have been arranged by the Chinese Embassy. If we now let slip the opportunity to gain real and substantial concessions from the Chinese government when they are clearly in a weakened bargaining position, the leverage power of MFN will be lost.

In the final analysis, in addition to concerns of human rights abuses, emigration, the trade deficit, and arms shipments, you must think about America's responsibilities as leader of the free world. For the past year, US foreign policy towards China has supported the interests of the Chinese government. As the gulf between the leadership and the people deepens, the perception of the people may become that US policy is contrary to the interests of the people or at least indifferent to them. The Chinese government is playing with people's lives to serve its own purposes, and that purpose is increased concessions from the West to keep the current regime in power.

Temporarily suspending MFN is a modest but important step. Our position is not severe or drastic. We are not suggesting a permanent termination of MFN status. We are not suggesting the kind of measures which would make it impossible to have an improved relationship in the very near future with the government. Instead, we are asking for a brief period of six months that MFN be suspended in the belief that this pressure will bring about the release of our friends and countrymen and help to bring about fundamental reforms in our country.

Why continue a failed policy? Why not, instead, tell the hardliners that they must pay a price for their continued violations of human rights? Why not strengthen the hands of those who argue that China will suffer economically unless it conforms to internationally recognized standards of behavior? Why not reduce America's contribution to the funds that finance the policy of economic retrenchment? Why not pursue a policy that serves American interests and values, instead of the interests of the hardliners who control China's central government?

Mr. Chairman, the question before you properly involves issues of human rights and the requirements of the Jackson-Vanik amendment. Thus, the proper perspective is not how to best maximize international trade or profits of US corporations, but how to best bring the vision of America's founders to bear on the condition of a boy who, speaking for millions ~~of~~ Chinese people, yearns to be free:

I hear the call of democracy, it is ringing in my mind;
I can feel the sparks of freedom, they are burning in my heart.
Like our thinkers of the past who dared to dream,
I must follow in their steps.
I, too, am prepared to bleed,
and I will give my life, as they did,
for this, our beloved land.

The past is over. After five thousand years of feudalism, we must break our chains.
The past is finished. After forty years of tyranny, we must abandon our chains.
For this, I have become a willing seed.

Goodbye forever, my mother, my country;
I shall go plant democracy in this, our beloved land.
Thank you for nourishing me, for bringing me up,
for making me what I am.
I give to you my love, I leave you my respect.

Goodbye forever, my mother, my country;
I have become a spark.
I am a fireseed who shall go to ignite the light of freedom.
May it glow forever to reflect the virtue of my countrymen.

Goodbye forever,
my mother,
my country.

[This "Will" was written by an unnamed 15 year old boy and mailed to his family one month before his death in Tiananmen Square.]

## CHINA'S EMIGRATION POLICY
## A PERSONAL STORY

My name is Heping Shi. I came to the United States in August, 1987 and am a Ph.D student in the Department of Sociology at Virginia Tech. My wife's name is Suxia Gan. She works as a librarian at Foreign Affairs College, Beijing. We have a nine-year-old daughter.

On March 13th of this year, I received a call from my sister, who told me that my wife had gone mad and tried to strangle my daughter before she committed suicide herself, the reason being my involvement in the pro-democracy movement in the United States. My sister could not help crying while begging me to keep away-from "politics" and "counterrevolutionary activities". Later on, when my wife regained her mind, she asked me to forgive her for having attempted to kill our daughter and explained that she had been "approached". She dared not tell me the details, because she knew that our phone conversation could be taped and our letters were read. However, from the word "approached" I could well understand how much pressure had been exerted on her.

During the past forty years, hundreds of thousands of people committed suicide simply because they had been "talked to". Here I wish to explain in a few words what it means to have a "counterrevolutionary" in a Chinese family. It means that friends and neighbors will keep away from you for fear; it means that it is difficult for you to find a job; it means that you will be treated differently in salary and housing--if you are lucky enough to be given a job; it means that the children of the family will be denied good education; and above all, it means that you are constantly approached and told that your loved one is an "enemy of the people" and that you should "draw a clear line" between you and your loved one. My father was labelled a "counterrevolutionary" and sent to a labor-reform farm when I was six years old. The family immediately lost most of its income and ran into debt. One year after, my grandfather committed suicide because he could not pay the debt. Shortly after, my younger brother died of illness for lack of care because my mother was overwhelmed with the repeated blows and economic difficulties. I was not allowed to go to middle school because of my father's problem, though I scored the second highest in my county on the aptitude tests. For twenty years, our family bore the stigma of "counterrevolutionary family". My mother was the target of "struggle meetings" in her work unit, constantly criticized and humiliated. My sister and I belonged to the "five black categories" and were denied employment and education and spiritually segregated from the majority of people of our age.
Such a situation only ended when twenty years later, the government admitted that my father had been "wronged" and had never done the thing he had been accused of. And that was all. My father did not even get one penny compensation for the twenty years he spent on the labor-reform farm. My mother used to say:"Even a leaf falls from a tree, we are afraid that it will break our heads." Her words reflected the tremendous pressure put on a "counterrevolutionary family".

After I got the call from my sister, I called the Chinese Embassy in Washington D.C. and told them that I decided to stop my pro-democracy activities and asked them to let my wife and daughter out to see me in the United States. Their application had been rejected on the grounds that my wife "failed to give proper reasons to go abroad". The Embassy official in charge of my school said that he had the instruction that if I pledged in written form that I would never be involved in the pro-democracy movement again, they would give me a letter to go home with and I would be able to see my family. As for the possibility of my wife and daughter coming to visit me, let alone emigrate, it was beyond the responsibility of the Embassy. Later on, I met Xu Lin, the third secretary who recently defected from the Chinese Embassy, he told me that Ni Mengxiong, the Education Council, upon hearing the report that I said I would stop my pro-democracy activities in exchange for the visit of my wife and daughter, remarked:"These students are not so hard to deal with. Tighten the screw and they will make no more trouble."

But I did not make the written pledge. Today, my wife and daughter are still held as hostages.

Chairman GIBBONS. Thank you.

Ms. Gong.

## STATEMENT OF XIAOXIA GONG, CHAIRPERSON, BOARD OF DIRECTORS, CHINA INFORMATION CENTER, INC.

Ms. GONG. Thank you, Mr. Chairman.

My name is Xiaoxia Gong and I am a graduate student in the Department of Sociology at Harvard University. I am also the chairperson of the board of directors of the China Information Center, an organization established last May dedicated to the freedom of information and the promotion of humanistic values in China. I am here to offer a case for the renewal of the most-favored-nation status for China.

I realize that when people raise the issue of removing the MFN to China, their major concern is the human rights situation in the country. Doubtlessly, the current situation in China since the brutal massacre last June is dreadful. Thousands of the demonstrators in the prodemocracy movement have been arrested, many of them tortured, some of them even executed. Among those who were arrested, some of my very close friends and schoolmates.

Moreover, the Chinese Government has set up a series of new regulations which restrict free flow of information and the free emigration. So I fully respect the efforts of those Chinese students and the Congressmen to promote the cause of human rights in China. The difference is not over the eventual goals, but over relative merits of different tactics and costs of different courses of action we want to take.

There is no question that the current Chinese leadership has attempted to reverse the cause of gradual political and economic openness that China undertook for 10 years since 1978. But in our judgment, their efforts to crack down on dissent and to reverse the reformist course have not been completely successful.

One of the most important reasons is that China today, compared with the dark Orwellian world of Mao Zedong, is much more open to the outside world. Therefore, we should make every effort to keep China's doors open. Keeping China's doors open will provide us with leverage to positively influence future developments and to prevent an already bad human rights situation in China from going worse.

The MFN status for China constitutes one of the most important components of keeping China's doors open. We offer the following reasons to support the renewal of MFN status for China.

First, keeping China's doors open is the best means of restraining political repressions in China. Here, I can offer my personal experiences.

In 1972, my friends and I conducted an independent investigation in Guangdong Province about political persecutions and the human rights abuses. We found that in only one province, in Guangdong, between mid-1966 to late 1968 42,000, innocent people were executed arbitrarily without the protection of any legal procedures. At that time, our only wish was to find a way to release the information to the outside world.

We failed because then China's doors were tightly closed and we paid a dear price—some of my friends were put behind bars for conducting this investigation. I remember one for 5 years and the other for 7 years. I was put into the jail later.

On April 5, 1976, also in Tiananmen Square, the then Chinese leadership unleashed armed police to suppress a massive popular demonstration. There was no Western camera to capture the voracity of the crackdown because China's doors were closed. As a result, even to this day nobody knows or has a rough estimate of how many people were killed, executed or jailed for participating in the demonstration, that was in 1976.

The Chinese Communist regime has a history of political repressions. Tiananmen Square massacre in June 1989 was only one of the many heinous crimes the Chinese Government committed against its people. However, the critical difference of this crime with the previous ones is that it was committed in front of the world. To be more accurate, I should say, in front of the cameras of the world.

As a result we know many of the names of those thrown into jail and we have a rough estimate of the number of deaths in the crackdown. Furthermore, new ideas and new values introduced to China through the open-door policies have made it very difficult for the Chinese Government to carry out its campaign of lies and have made a sustained repression very difficult.

So it is the openness that makes such a great difference. For this reason, the first thing the Chinese Government did after the massacre was to close the door of China by expelling the brave foreign reporters. If we do want to punish the murderers, the best way, I think, is to force them to keep the door open.

Second, we believe that revoking China's MFN may affect leadership dynamics in China in ways detrimental to forces of political moderation and democratic aspirations. We must realize that the current leadership is deeply divided. To apply excessive foreign pressures at this time may unite an otherwise divisive leadership.

Worse yet, isolating China may benefit such archconservatives as Chen Yun and Li Peng. These are the leaders who have thrived on xenophobia and total rejection of Western ideas. Removing MFN will legitimize conservatives' efforts to recentralize the economy and to agitate an antiforeign sentiment by blaming all the problems on foreigners.

Third, MFN removal will have a very serious detrimental effect on a sector of the Chinese economy that may prove to be an effective agent for future political changes in China.

Specifically, we here refer to the private and quasi-private enterprises that have grown very rapidly in China's coastal areas in recent years and which are extremely dependent on export markets.

Demolition of China's private sector will have long-term political implications. Private entrepreneurs are the most ardent supporters of freedom and democracy. Furthermore, from the experiences of East European countries, we learned that successful transition from authoritarianism to democracy will ultimately depend on the success of converting a centrally planned economy to a market economy. That conversion, in turn, depends on the existence of private entrepreneurship and the size of the private sector in the economy.

Fourth, we believe in nonviolent political transformation and we believe that one of the best ways of achieving change in a peaceful manner is to keep China's doors open and keep our links with the moderate and the reformist faction in the Chinese leadership.

People may argue that the removal of the MFN would result in a sharp reduction in living standards in China and thus would possibly lead to another people's rebellion. The current regime can be toppled.

I, myself, hate this regime as much as other Chinese do, if not more. Because being a political dissident in China for 16 years, I suffered a lot in the political campaigns and even in prison for my ideals and longings for freedom and democracy. However, under the Communist rule, the Chinese people have already suffered too much in political coercion, turmoil, famine, shortage, and most recently, corruption and inflation. If the removal of MFN could indeed lead to a violent overthrow of the Government, which I doubt very much, I am worried that the Chinese people would pay a terribly high price both in human and in economic terms.

Also achieving change through violent means can create deep wounds that take a long time to heal. Witness the recent chaos and difficulties in Rumania and the contrast between Rumania and other Eastern European countries. The critical difference is that other Eastern European countries achieved political and economic changes gradually and peacefully. We should exert every effort to ensure that future changes in China will not be violent.

Considering the current political and economic realities in China, we support a moderate policy approach toward China. We do not view the trade relationships of the United States with China strictly in dollar terms; more appropriately, they are windows of opportunities for fostering seeds of future political changes in China and for bringing about these changes in a gradual and peaceful manner.

However, to be moderate does not necessarily mean tolerance of the inhuman suppression by the Chinese Government of its own people. We believe that we can take a moderate stance on the MFN issue but a strong and effective position in human rights. We suggest the following measures that will enable the United States to take a position on China's human rights situation without disrupting the MFN.

First, the American business community should refuse to do business with the municipal leadership of Beijing. Mayor Chen Xitong and Party Secretary Li Ximing played an instrumental role in providing justification for the crackdown and executing the crackdown.

Second, if the human rights situation in China fails to improve, there should be efforts to establish ethical guidelines, similar to the Sullivan Principles, on doing business in China. For example, these guidelines can encourage business with relatively liberal and progressive coastal provinces while discouraging business with the conservative Beijing Government.

Third, World Bank loans, in addition to being subject to the basic human needs test, can be used to advance economic reforms in

China. For example, some of the loans for infrastructural projects can be converted to policy and institutional support loans, which make disbursement conditional upon such reform measures as enterprise and price reforms.

If conditions must be attached to the renewal of MFN, we should make sure that these conditions will not be so sweeping and unrealistic as to make revocation of MFN inevitable. We suggest the following criteria for coming up with conditions.

First, these conditions must be practical, that is, they must only demand concessions that the Chinese leadership has demonstrated in the past that it is willing to make.

Second, these conditions must demand concessions about which the Chinese leadership, itself, is divided.

Third, these conditions must be verifiable. Using these criteria, we suggest a general call for the release of political prisoners and release of information about them be made the only condition we attach to the renewal of MFN.

Finally, I would like to add a last but more important fact. Two students in Peking University a month ago posted an article against economic sanctions and they were arrested by the Chinese Government. Those students risked their lives to deliver us a message. We cannot ignore it.

Thank you.

Chairman GIBBONS. Thank you, Ms. Gong.

Ms. Burkhalter.

## STATEMENT OF HOLLY BURKHALTER, WASHINGTON DIRECTOR, HUMAN RIGHTS WATCH, ON BEHALF OF ASIA WATCH

Ms. BURKHALTER. Thank you, Mr. Chairman, for inviting me to testify. I am here on behalf of Human Rights Watch which includes the Human Rights Monitoring Group Asia Watch.

I would like to start by noting that if there seems to be one point of agreement on the previous panel and amongst the members, it is that it would be nice if the United States could operate in concert with our allies. I know that Mr. Matsui, in particular, was pursuing this question, what are our allies doing? What are the G-7 countries doing? Would Japan reap the benefits if we were to end MFN?

It is worth noting in this context that last July, about a month or so after the Tiananmen Square incident and the crackdown, Secretary Baker traveled to Asia. The press reported explicitly that Secretary Baker asked our allies, and specifically the ASEAN countries and Japan, not to invoke trade sanctions against China, and to stick with the limited package of sanctions that the United States had already invoked.

So, it really is wishful thinking to think that we are going to bring our allies with us when the Secretary of State was begging them not to take stronger measures.

Mr. MATSUI. If I may, I do not want my comments mischaracterized. I agree with what you are saying. I do not expect any of our allies or our trading partners to do anything in the foreseeable future. As a result of that, I do not think anything is going to happen.

So I was not suggesting that we could put pressure by signing a letter that a colleague of mine might have and sending it to the administration that is going to make one iota of difference. I do not think it is going to make any difference at all.

Ms. **BURKHALTER**. I did not mean to mischaracterize your comments, Mr. Matsui. I just wanted to comment that the administration has been begging our allies precisely not to do that which I think many of the members would like to see, which is to——

Mr. **MATSUI**. Well, certainly I did not vote for this President so I am not going to take responsibility for that.

Ms. **BURKHALTER**. I do not hold you responsible, sir.

I think that anecdote, however, suggests that the reason we are here today talking about MFN is precisely because across the political spectrum in the U.S. Congress and in the human rights community there is widespread frustration mostly with the Chinese for a terrible human rights policy and the sickening tragedy that everyone saw on their television screens last year. But also with the Bush administration, whose policy of rapprochement and attempts to bring the Chinese along with all carrots and no sticks has yielded very little on human rights.

I think that is why, for the fist time in my career in human rights, we have seen such an across-the-political-spectrum interest in this question, and unanimity in political views.

I think there is sort of good news and bad news about this whole MFN debate. The good news is that the Chinese are clearly listening and watching. Anyone who has traveled to China recently, and some of my friends in the business community have told me that the Chinese leadership are very nervous about the MFN question.

Clearly their actions in recent months to release a number of political prisoners were exclusively aimed at influencing the Congressional debate. I think that is a good sign because it means that at least the leadership is conscious that they have to do something.

The bad news is that they have not done near enough and the U.S. Congress and the administration should not be satisfied with what little the Chinese have done.

According to our tally, the Chinese have claimed to have released over 800 political prisoners in the last 6 or 8 months. They came out in three batches. There were some 573 that came out last year, and there were an alleged 211 more in May and then at the beginning of this month, I think it was June 6, it was said that the Chinese released another 94 or 96.

But of that group total of more than 800 prisoners the Chinese only released the names of about 10. Now, Asia Watch has on our own gotten the names of a total of about 15, but that leaves a lot of others that we do not know a thing about. Asia Watch requested that the Chinese permit our organization to go into China, to monitor the releases, to try to interview the prisoners who had some out, to try to look at the facilities, to try to get some kind of a tally on how many prisoners remained and we were refused.

So until the Chinese permit—it does not have to be our group but permit—either the International Committee of the Red Cross or Amnesty International or some nonpartisan, disinterested human rights observer to come in and try to find out precisely how many remain and whether those they are claiming to have released have really come out, I think we need to give credit to the Chinese for releasing exactly 10 prisoners.

For my money, that is not near enough in terms of what we would like to see the Chinese do before they get MFN.

The Chinese are doing, with the prisoner issue, exactly what they said they were going to do. You will recall a very interesting news article that came out last month where a defector from the Chinese Government by the name of Xu Lin defected from the Chinese Embassy and he released a document prepared by the authorities which described that they will use the prisoner card to try to influence U.S. policy. That is really the only thing that they have. So they are dribbling out prisoners sort of one at a time in an effort to try to influence the U.S. debate.

When one reads something like that, one wonders who is leveraging whom with this MFN debate? Who really holds the cards? Is it the Chinese or is it the United States?

I am afraid that the release of prisoners, however many have come out, which we very much welcome, has been unfortunately overshadowed by some developments in precisely the opposite direction. I am particularly disturbed that there seems to have been a sort of deepening crackdown since the President made his MFN announcement. I am afraid that the Chinese have decided that there is not any suspense any more, the MFN issue is in the bag and so they have commenced executions.

The first prisoner was executed recently since those executions over the summer. The execution was a person who was accused of having overturned a jeep and setting it aflame in the city of Chengdu and that incident occurred after the police had opened fire and killed a number of peaceful demonstrators. That person was executed at the end of May.

Also there have been a number of prominent dissidents arrested recently. In a case, I think that makes me the saddest is the case of Liu Qing, who is a former Democracy Wall prisoner. He is one of those Chinese who, in 1979, was engaged in democracy movement activities and was in jail for many, many years.

He was released and was then recently rearrested and is now back in jail. He is one of the most prominent of Chinese dissidents, and that happening just in the last couple of weeks is just a very disheartening signal, indeed.

In addition to that, as my testimony describes at length, there is a deepening repression in terms of institutionalizing the press laws, the laws against demonstration and assembly. And the trade union movement which was just beginning in the last days before Tiananmen Square has completely been busted. It is a very bleak picture indeed.

I am not going to go into the issue of emigration because I think Congressman Schulze really summarized some of Asia Watch's findings, as well as some of those that I believe he commissioned from the Library of Congress.

But I would agree with those who have stated that if the letter of the law were applied and if black words on white paper mean what they say, China would not be able to get MFN on emigration grounds alone, though Asia Watch would like to see a broader human rights conditions looked at.

We think the right of people to leave their country is just one of the many things that ought to be looked at. Frankly it interests me a lot more about the right of people to live in China in some sort of physical security and safety and free from the gross repression that they have suffered.

In conclusion, I would say that I think this kind of a debate is very good for human rights in China. This is the fourth congressional hearing I have participated in. I think the fact of the enormous interest evidenced by the Congress has been precisely what has contributed to the few prisoner releases we have seen. I think the debates and discussions wherever they come out have played a very helpful role.

If the Congress does decide to permit the granting of the MFN to go through, I hope that at least something will be done to make sure that the Chinese know that it did not come for free. That a number of human rights conditions have to be fulfilled within the coming year before they get it again.

I would agree with some of the speakers who have come before me in looking at a variety of human rights conditions. On the top of my list, of course, is a general amnesty for the political prisoners and a documentable release of all of them.

I would be happy to answer your questions.

Thank you.

Chairman GIBBONS. Thank you, Ms. Burkhalter.

[The statement of Ms. Burkhalter follows:]

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## MFN FOR CHINA

Testimony of Holly Burkhalter, Asia Watch

Before the House Ways and Means Subcommittee on Trade

Tuesday, June 19, 1990

Thank you for holding this hearing, Chairman Gibbons and for inviting me to testify. My name is Holly Burkhalter, and I am Washington Director of Human Rights Watch. I appear this morning on behalf of Asia Watch.

As we observe the first anniversary of the imposition of martial law and the killings at and around Tiananmen Square, it is appropriate to evaluate the current state of human rights in China, the results of the Bush Administration's policy towards Beijing, and the advisability of further sanctions against China.

Asia Watch has been sharply critical of the Administration's China policy. The Administration's response to the events of June 3 and 4, 1989 (and subsequent repression) was far too tepid to have had the effect on Beijing of promoting respect for human rights and reversing the crackdown. Lu Jinghua, a founding member of the Beijing Workers Autonomous Federation, stated in meetings in Washington last month that she felt that international pressure exerted by trade sanctions was crucial in the long term to produce real change in China. She said that she and her worker colleagues would rather suffer the short-term pain of any economic dislocation caused by sanctions, than endure the current regime for the long-term.

The original sanctions imposed by the Bush Administration, such as opposition to loans to China at the World Bank,[1] the ban on high-level diplomatic contacts,[2] and the suspension of commercial sales of military items[3] have been eroded considerably.

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[1] The Administration opposed all World Bank loans to China (and worked to prevent them from being considered) from June 1989 to January 1990. In January, the Administration announced a change in its position, and stated that it would support "basic human needs loans to China. Bank officials have privately suggested that at least one of the three "basic human needs loans" supported by the Administration this year does not fit that criteria.

[2] The Administration violated this aspect of its sanctions policy secretly before the blood was even dry at Tiananmen Square by sending National Security Advisor Brent Scowcroft and Deputy Secretary of State Lawrence Eagleburger to Beijing. The pretense of diplomatically isolating China was dropped altogether in December when the duo went back to Beijing and, in a highly publicized meeting with Chinese leaders, toasted them fulsomely.

[3] The Administration approved licenses for the sales of $150 million worth of Boeing jetliners in early July, and in October permitted Chinese military officers to resume work on Project Peace Pearl, a $500 million program to upgrade Chinese fighter aircraft. According to press reports, the only arms deal with China which now remains on hold is the shipment of an $8.2 million contract for submarine torpedoes and torpedo launchers.

In addition to undoing his own sanctions against China, President Bush has invoked his broad waiver authority to limit the impact of sanctions required by the Congress in sanctions legislation. In December, President Bush waived the congressional ban on the export of three communications satellites to China. And in February, a Congressional ban on Export-Import Bank financing was waived, and a $9.75 million loan was made to China National Offshore Oil Corp.

Nor has the Bush Administration neglected symbolic opportunities to reassure the Chinese leadership that they have United States support. The veto of the so-called "Pelosi bill" which would have extended protection to Chinese students in the U.S. and President Bush's frantic arm-twisting to prevent the Senate from overriding his veto signalled all too clearly that this Administration would go to any lengths to avoid embarrassing Beijing.

Before turning to the question of additional sanctions against China, it is worthwhile to examine just what concessions President Bush got from the Chinese leadership for his efforts. The Chinese were concerned about sanctions, and took actions clearly meant to influence the Congress. In the period preceding the first significant debate on China in the U.S. Congress (the debate on the Pelosi bill in early 1989) the Chinese leadership announced its first human rights concession since the crackdown: the lifting of martial law in Beijing and the release of 573 detainees. Unfortunately, the prisoner releases appeared to have been a publicity stunt, as no names were released and no names provided of the tens of thousands still jailed. And the lifting of martial law was offset by a flurry of new laws and regulations which were enacted to enshrine martial law restrictions on speech, press, and assembly, and by the fact that some 40,000 PLA troops simply exchanged their uniforms for police uniforms and continued their duties in the city.

The Chinese leadership's gestures were more than outweighed by a deteriorating human rights situation throughout the year. In addition to the thousands of prisoners jailed in the aftermath of Tiananmen Square, Asia Watch has documented several dozen further arrests and trials of pro-democracy individuals that took place between October 1989 and January 1990, and has received reliable reports that many others (though names are not yet known) were arrested or tried over the same period. In a significant development in November, six students were brought to trial secretly and convicted of "counterrevolution." Previously, the great majority of those brought to trial and sentenced since June 4 for their activities during the movement had been either workers or unemployed. Another ominous development was the arrests during the December 1989 - February 1990 period of dozens of priests, bishops and laymen belonging to the underground Roman Catholic church in northern and western China.[4]

In May we saw a repetition of the Chinese government's January efforts to influence Congress as the date approached for the President's waiver request for Most Favored Nation trade status for China. Beijing announced the release of 211 people, and provided the names of six who are intellectuals and dissidents known in the West. (The vast majority of those jailed are ordinary workers, whose names are not known in the West.) The releases were preceded by the lifting of martial law in Lhasa, Tibet on May 1st.

And on June 6, Beijing announced that another 97 prisoners had been released, and provided five names. Asia Watch has compiled a list of prisoners totaling well over 500; of those, we know of approximately 15 who have released, although the government has only released officially the names of 11. Asia Watch has requested the opportunity to visit China to confirm the releases and visit places of detention to find out how many remain in detention, but has been denied permission. Thus far, Beijing has admitted to the release of 881 "lawbreakers." Absent an independent investigation, however, it is a mistake to credit the Chinese authorities with that many releases.

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[4] The wave of arests of churchpeople may be directly related to the suppression of the pro-democracy movement, as those close to the underground movement reported a surge in the numbers of conversions to Catholicism following the June 4 crackdown.

While Asia Watch welcomes the releases of any prisoners, we are concerned that the government has stated that only 431 "law-breakers involved in the turmoil and rebellion" were still under investigation. To our knowledge, there may be thousands of prisoners from the pro-democracy movement remaining in jail, most of whom are workers detained incommunicado without charge.[5] Moreover, we are concerned that the Chinese government's statement called those it released "law-breakers," despite the fact that apparently none was charged and tried. Those released, according to the government's statement, made "voluntary confessions." Those who presumably maintained their innocence are considered as having refused to repent, and "will surely be punished strictly."

And as for the lifting of martial law in Lhasa, the measure is not much more than cosmetic unless the right to express views peacefully is afforded Tibetans. As you know, groups of Tibetan monks and nuns have been arrested within the past several months for attempting to demonstrate peaceably in favor of Tibetan independence.[6] Tibetan political prisoners have been tortured terribly.

China's recent gestures aimed at influencing the MFN debate in Congress should be considered in light of a secret document prepared by the government this Spring, which states that the government intends to use the release of political prisoners as a "card" to influence American policy toward China.[7] The document was made available to The New York Times by Xu Lin, a Chinese diplomat who defected from the Chinese embassy recently. The question that the Bush Administration and Members of Congress should ask themselves is whether the release of a small number of prisoners out of possibly thousands who waste their lives away behind bars in deplorable circumstances (all other releases should be viewed skeptically until the names and circumstances are known) warrant the trade relations which the leaders who destroyed China's democracy movement so ardently desire. In our view the answer is no.

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[5] In considering the seriousness of China's present human rights situation, it is well to keep in mind that these 10,000 to 30,000 political prisoners are being held in appalling conditions, where prison cells are grossly overcrowded, diet severely inadequate, infectious diseases widespread, and torture, beatings, and abuse frequent. A student jailed at Qincheng Prison described how the majority of those detained at the facility bore wounds and injuries inflicted as a result of severe beatings by prison guards, and how many had given false confessions under duress, and others had become mentally ill. Influenza, lung infections, and other diseases were said to be spreading throughout the prison, and "pitiful wailing sounds" could be heard coming from many of the cells.

[6] Asia Watch takes no position on the issue of Tibetan independence, but believes that Tibetans should have the right to express their views peacefully on the subject without government interference.

[7] The New York Times, Friday, May 11, 1990, "Beijing Aims Jail Releases at Influencing U.S."

China's MFN trade status should have been suspended last June. The fact that it wasn't is no tribute to the Chinese government's human rights or emigration practices.[8] Congress did not revoke MFN last year principally because President Bush imposed more limited sanctions and made clear his opposition to stronger measures. (As you know, however, the sanctions bill enacted by Congress directs the President to consider suspending MFN if repression in China worsens.)

It is not too late to seriously consider a suspension of MFN for China, however. The President has had a year to implement his policy largely without interference from Congress, and it has produced pitifully small results. The Chinese have had a year to respond to Western concerns, and the response has been contemptuous in the extreme: a shrill and virulent campaign of hate against the West, the virtual imprisonment of Professor Fang Lizhi and Li Shuxian within the U.S. Embassy in Beijing, and a handful of named prisoners released as China plays its "prisoner card."

It is particularly disturbing that in the weeks following their concessions of early May, the Chinese authorities took a number of steps backwards on human rights. For example, Reuters reported on May 31 that a pro-democracy activist was executed in Chengdu, the capital of Sichuan. This is the first publicly announced execution since December. The victim, Yu Yongchuan, was a worker who was convicted of overturning a jeep and setting it afire. (It is our understanding that the jeep incident occurred after police fired upon demonstrators, killing dozens.)

We have also learned of several arrests in the past several days which suggest that China has stopped worrying about what the West thinks, now that the suspense of whether President Bush would recommend MFN renewal is over. In the past several weeks, two people were arrested in Tiananmen Square for attempting to contact foreign reporters and discuss what happened at the square a year ago. One of them was arrested while attempting to give a document to a Canadian television crew. We are also aware of the sentencing of a relative of a student activist. The student activist escaped, but the relative just received an 18-year prison term for giving funds from his company to the democracy movement before the crackdown. And a week after the Chinese boasted of releasing 211 prisoners, Chen Xiaoping, a legal researcher, received a 15-year sentence for democracy movement activities in a secret trial.

One particularly tragic incident which occurred recently was the re-arrest of Liu Qing, a prominent activist in the 1979 Democracy Wall movement. Liu Qing served ten long years in jail for reporting on the trial of Wei Jingsheng, the great Democracy Wall leader who remains in jail. Liu Qing was released several months ago, but rearrested in mid-May. According to Amnesty International, Liu Qing is said to be the first prominent dissident arrested since the announced release of 211 prisoners in early May.

In the strictest legal sense, MFN could be denied immediately on emigration grounds alone. Section 402 of the Trade Act states that the President may not designate as an MFN recipient any communist country which "denies its citizens the right or opportunity to emigrate." If a country is not in compliance with this condition, the President may waive it if such a waiver would "lead substantially to the achievement of the objectives of this section" -- presumably, freedom to emigrate and the advancement of human rights.

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[8] As you know, Most Favored Nation trade status is limited by only one actual condition: performance on emigration. Nonetheless, the preamble to the law states that its purpose is to "assure the continued dedication of the United States to fundamental human rights..." This provision suggests that a broader interpretation of the Act and the withholding of MFN on human rights grounds, generally, is not inappropriate.

Emigration has never been free and open in China. Travel is only permitted if one is on government business, study, or visiting relatives overseas. Families are normally not permitted to accompany the traveler, and the opportunity to travel is highly discretionary. In the months since the June 1989 crackdown, the process has become even more restrictive. A look at the procedures one wishing to emigrate must go through is instructive.

On June 19, 1989 all visas issued before that date were invalidated by the authorities. Persons wishing to travel abroad have to reapply to foreign consulates for new papers. To apply for visas at foreign embassies, you must get clearance from your work unit, regardless of whether you have a passport. In order to obtain such clearance, you must go through the the security processes at each university or work cite which are controlled by the police. This new procedure was clearly designed to facilitate the police dragnet designed to round up every possible participant in the democracy movement.

Most importantly, passports themselves are issued by the police, not by a special passport section of the Foreign Ministry. Persons wishing to apply for a passport must get them from the police. Persons wishing to get a passport must first write two reports to the party secretary at his or her workplace, or, of the applicant is a student, at his or her university.

According to Chinese who have been through this process, the two reports -- donqluan biaoxian (a "report on my performance during the period of turmoil") and baoluan biaoxian (a "report on my performance during the period of rebellion") -- are expected to be confessional in nature in order to be credible; the authorities don't believe you unless you have something to confess. The difference between "turmoil" and "rebellion" is instructive. When the occupation of the square began in late April, it was called "turmoil." After June 3, it was characterized as "rebellion." By using both terms, the authorities are clearly attempting to use emigration procedures to round up all those who participated in the democracy movement -- before and after Tiananmen Square. The applicant must also write a letter of application to the party secretary of the department or work unit explaining why he or she wants to leave, what their plans are, where they are going, etc. The applicant is subjected to cross examination by party leaders.

These "turmoil" and "rebellion" reports are then submitted to the party secretary of the workplace or university, who meet with the chairman of the factory or president and vice president of the university to examine the document conscientiously. The university or workplace party secretary then writes his own report on how the applicant behaved during the "turmoil" and "rebellion." This report is then given, sealed, to the applicant, who presents the sealed report to the Public Security Bureau.

During the period of martial law, before the Public Security Bureau approved the issuance of a passport the documents were forwarded to martial law command headquarters of the People's Liberation Army, which compared the applicant's photograph against their own video camera footage of the pro-democracy movement and the occupation of Tiananmen Square. Even with the formal lifting of martial law, the martial law command structure is still in place and, so far as we know, the authorities are continuing to check photos of passport applicants against photographs collected during the events of May and June.

Because of the restrictions on the flow of information within and from China, it is difficult to know how many persons are actually refused passports and exit permits because of their involvement in the democracy movement, though Asia Watch has information confirming that the Chinese are refusing emigration papers to persons involved in the movement, and their families, through the procedures described above.

In addition to the political restrictions on emigration, it is widely understood that large bribes must be paid to the authorities in order to accelerate the process. We are aware of one case of someone trying to emigrate from China to the U.S. who paid $300 in bribes to the Public Security Bureau to accelerate the process. The bribes alone do not assure that the case will be resolved -- it only facilitates a process which can otherwise take months.

The Chinese attitude towards emigration might be seen in their treatment of four Hong Kong Chinese (Tse Chun-wing, Luo Haixing, Li Peicheng and Li Longqing) and two Chinese from Macao, Xie Zhenrong and Chen Zewei. The six were arrested by the public security authorities of Guangdong Province for their alleged involvement in the "underground railroad", a Hong Kong-based network which has secretly helped over 100 pro-democracy activists to escape from China since June 4. Luo Haixing's case is being handled not by the Guangzhou Public Security Bureau, but by a special group sent to Guangzhou directly by the Ministry of State Security and charged with looking for "pro-democrats on the run." The two Macao residents have been formally placed under arrest by the Guangzhou Public Security Bureau for their alleged role in trying to assist the Beijing student leader Zheng Xuguang to escape. The fate of the four from Hong Kong remains unknown, but they are still in secret detention.

Asia Watch is aware of a number of cases of activists who were jailed after they were apprehended as they attempted to leave China. We are also aware that hundreds of democracy movement participants were apprehended trying to escape from China in Yunnan, which borders on Burma and Vietnam, before that escape route was sealed off by the security services.

The government has also limited student travel. New regulations were announced in early March of this year which require any student wishing to go abroad to work for a minimum of five years before applying to study overseas.

Even before the crackdown, emigration and travel regulations were highly arbitrary. Persons attempting to leave the country illegally can be sentenced by police -- not the courts -- to labor reeducation camps for up to three years. And the punishment may be extended for a fourth year, solely on police authority.

Clearly, then, if the letter of the law were followed, Chinese emigration procedures would disqualify it from receiving MFN treatment, unless President Bush can somehow make the case that waiving the conditions will improve those practices. Information submitted to Congress on May 24th along with the waiver states that approximately 17,000 Chinese nationals received U.S. visas to emigrate every year, including last year, most for the purpose of family reunification. The White House noted that "US numerical limitations, and not Chinese restrictions, limit the number of Chinese who emigrate to the United States."

It is not clear from the President's statement whether he believes that extension of MFN in 1989 was responsible for encouraging the emigration of 17,000 Chinese nationals, but in our view, the new restrictions adopted last year more than outweigh the emigration figures, which are apparently the same as in previous years.

We regret that the President's statement when announcing the waiver was not more specific about human rights improvements which will be expected this year. He squandered an important opportunity to call upon the Chinese authorities to release all remaining political prisoners, and refused to suggest that MFN might be revoked if human rights conditions aren't met.

The purpose of sanctions is threefold. First, there should be tough sanctions to demonstrate revulsion for the terrible crimes of the Chinese leadership against their own people. Second, sanctions should be maintained in order to encourage some relief from repression, i.e., to pry loose human rights concessions from the authorities. Third, sanctions should be imposed to discourage a repetition of the terrible events of early June and the months following. These three purposes will not be achieved if Congress walks away from the MFN issue without seriously considering invoking this most important of sanctions against China.

Some fear that if MFN is revoked this year, the United States will lose all influence with China, the hardliners will be strengthened, and there will be no possible leverage on China. My fear is that unless Congress strictly conditions MFN the leverage which comes with MFN will have been squandered. It is worth remembering that following Deng Xiaoping's crackdown on the 1979 Democracy Wall movement, he is known to have boasted that China would pay no price for the jailing of democracy movement leaders such as Wei Jingsheng. He is right, of course. There was no cost to China for the destruction of the 1979 Beijing Spring and Wei Jingsheng -- said to have developed schizophrenia from his long years in solitary confinement -- remains in jail, along with at least ten other Democracy Wall prisoners.

It is almost impossible to predict how China's leadership would respond if MFN were suspended, or if MFN were offered conditionally to China. As you know, the leadership in Beijing is divided and fearful of being toppled. The economic impact on China of a suspension of MFN would be severe, and some suggest that conservative hardliners such as Li Peng and Yao Yilin would be bolstered. If MFN were suspended for a period pending a review, or offered conditionally, with a built-in Congressional vote on China's compliance with a number of human rights conditions, China's leadership would certainly denounce the U.S. for meddling in its internal affairs. But many scholars believe that granting MFN without conditions would be a victory for Li Peng and other hardliners, and that some form of conditions on MFN are required to give Chinese reformers some leverage. Chen Yizi, the principal economic adviser to Zhao Ziyang and the most senior Chinese official to have escaped from China, has taken the position that MFN should only be granted with conditions. He names the release of political prisoners including those jailed since the Democracy Wall episode, as the most important condition which should be placed upon the granting of MFN to China.

Some have suggested that it is a mistake to assume that political hardliners do not care to see the economic growth, so dependent upon MFN, continue. Yet in the past, even hardliners appeared to have backed down when growth might have been compromised by political stridency. For example, during the March 1987 campaign against bourgeois liberalization, Chinese students in the U.S. orchestrated a letter-writing protest. This protest was brought to the attention of the politbureau and debated. The politbureau is said to have feared that the campaign (and the negative response to it from the U.S.) would hurt the process of economic development. The anti-bourgeois liberalization campaign waned shortly thereafter, for a variety of reasons. While it is not quite fair to compare that situation with the situation today -- Zhao Ziyang was party secretary general at the time -- there were nonetheless hardliners within the politbureau responsible for the campaign who were willing to abandon it, and international pressure contributed in part to that result.

Similarly, the xenophobic and doctrinaire "anti spiritual pollution" campaign of 1983 (the so-called 27-day Cultural Revolution) was quickly abandoned when Hu Yaobang returned from Japan with reports that western businessmen were being frightened off by the virulent attack on "western values." Deng Xiaoping acquiesced, and reforms and a certain degree of liberalization continued apace.

This is not to say that hardliners within the Chinese leadership welcome economic reforms. The conservatives in the Chinese leadership strongly oppose western cultural influences and certain forms of individual entrepreneurial activity, which are already being restricted. Yet they are strongly in favor of economic growth, and appear to recognize that such growth would be compromised by the loss of MFN. The internal memorandum describing the "prisoner card" demonstrates the leadership's understanding of the importance of responding so that MFN will not be jeopardized.

Some China experts have raised the question as to whether the complete withdrawal of MFN from China might have a deleterious effect on China's participation in the U.N.-sponsored Cambodia peace negotiations. While I have not heard a consensus among experts on this question, it is a serious concern. If China does not agree to stop aiding the Khmer Rouge militarily and support an acceptable international solution to the crisis, the consequences for the future of Cambodia are unspeakably grim. Perhaps the MFN process could be used to help encourage the Chinese to support the negotiations in good faith, and abandon its commitment to Pol Pot.

* * *

The Chinese have been persuaded that at least some gestures are required if they are to retain MFN for the coming year. The Congress and the Bush Administration should put China on notice that much more is required for there to be serious consideration of MFN renewal this year. The Administration should abandon private diplomacy at this point, and an aggressive public stance should replace it. The Administration did not hesitate to use very public diplomacy when it sent Brent Scowcroft and Lawrence Eagleburger to China to restore warm relations with Beijing. They should do the same today, but this time with a different message.

Congress for its part, can do much to help by using the MFN process to obtain maximum concessions from China. Congress should strongly consider suspending MFN for a period until the Chinese implement an amnesty for political prisoners. (This is precisely the condition which the U.S. imposed on Poland following the imposition of martial law and the jailing of thousands of political prisoners.) Or Congress should enact a new set of conditions on MFN for China and require the Administration to report on Chinese performance on a number of issues, including release of political prisoners, an end to the widespread use of beatings and torture in Chinese prisons, resolution of the Fang Lizhi case, good faith participation in the U.N. peace negotiations on Cambodia, and an end to military aid to the Khmer Rouge. If by the end of six or twelve month period the Chinese have not made significant, certifiable progress on these issues, MFN should be withdrawn.

In 1978 Deng Xiaoping returned to power, making the argument that those close to Mao had created a catastrophic political and economic situation through their hardline policies. He made the argument that China could only save itself if changes were made. Today, the hardliners have largely prevailed with their unique blend of economic growth with repression -- "market Stalinism" -- and at little cost. If Li Peng and his cohorts are permitted to continue their policies with U.S. support, they will only consolidate their power within China and the 1989 democracy movement prisoners, like their 1979 Democracy Wall colleagues, will face many years in jail.

Yet inevitably another democracy movement will rise up from the ashes of Tiananmen Square. Asia Watch favors tough sanctions against China, including limits and conditions on MFN, in the hopes that the authorities will think twice about destroying the next democracy movement in China.

Chairman **Gibbons**. Mr. Li.

## STATEMENT OF XIANGLU LI, INTERNATIONAL FELLOW, SCHOOL OF BUSINESS MANAGEMENT, PEPPERDINE UNIVERSITY, CALIFORNIA, AND MAI LU, FORD FOUNDATION FELLOW, ECONOMIC INSTITUTE, COLORADO UNIVERSITY

Mr. **Li**. Thank you, Mr. Chairman.

My name is Xianglu and I was assistant to the ousted Party Secretary Zhao Ziyang. I worked for the state council for 6 years and have other experience in different various ministries and commercial organizations in China.

My colleague with me is Mr. Lu Mai. He was the member of Zhao's state think tank. He was in charge of the experimental area in rural reform.

We were both Chinese officials a year ago. We were both opposed to the suppression measures, military law and the human rights abuse.

We are opposed to the current conservative policies. Human rights concerns us. As a matter of fact, several friends and colleagues of ours are still in jail for political reasons, but we do not think that the combination of the human rights issue and the most-favored-nation status will serve the intention to improve the human rights situation in China.

The Government has gone far away from orthodox totalitarianism through mechanization and open policy. The people, the Chinese people have been gained more strength, they have gained more self-confidence, they have gained more fresh ideas from the outside world.

Now, they become stronger, much stronger than before. The Chinese people benefited from the reform. They were the energy, they were the driving force of the reform, and they are protecting the reform in their daily lives and in their hearts.

I think I can tell you a small story. A friend of mine just got out of China and he worked for a local bureau of business registration. Because the hardliners austerity program adopted last year, the objectives of the program is to smash down many, many independent companies.

But I asked him, how many companies were dismantled? He said, no, there is increase of the number of companies. Why? Because we just ignore the central Government's order. Yes, we can dismantle some companies, but on the other hand, these companies can reregister according to the regulations issued in the reformist years.

Chairman **Gibbons**. Mr. Li.

Mr. **Li**. Yes?

Chairman **Gibbons**. Excuse me, I am going to interrupt you and I will come back. You heard the bells a while ago, and we have to vote, but I will be right back as will the other members.

We have a little controversy going on over on the floor and I cannot tell you how long it is going to last, but we will be back as soon as we can.

Mr. **Li**. Yes, OK.

[Recess.]

**Chairman Gibbons.** If we could all return to our seats?

Mr. Li, you go right ahead.

**Mr. Li.** Thank you, Mr. Chairman.

I just said that the hardliners could hardly win the battle against the proreform Chinese people.

What is the best tactic for hardliners? Late last year, one of the core hardliners, Li Peng, he drafted a party document. It says that China is in danger. Because she is surrounded by hostile imperialism, namely the United States.

So he urged that a greater purge should be taken. Some ruthless and some old measures should be retaken to discipline the party, to discipline the people. Although this document has gained no support from the party, even from top leader Deng Xiao Peng, it was reveals that for hardliners the best tactic is to make use of xenophobic sentiments to enforce their mandates to our people and ~~to~~ further human rights abuse.

We have tribal allowed throughout China, during the reform years. Personally I accompanied Mr. Zhao into Guangdong many times. I met a peasant woman in a small town.

At that time she worked for a township factory. This factory was manufacturing toys for the American market. The woman told me a very sad story. She said she could never forgive herself because she encouraged her brother to flee China in the 1970's. Then the boy got killed by sharks when swimming across the water to Hong Kong.

They were too poor to stay home. I just cannot imagine what will happen to this woman if U.S. market is closed.

It seems to me that human rights is a broad issue that covers not only free expression, but people's living. It depends more on the people than on the Government. The more power people gain, the more capable are they to claim and protect their own rights.

The most-favored-nation status will give China, Chinese people more chance, more opportunities to gain economic power, because the sector of foreign trade is more, even more marketized. When I was in the central Government the big headache was how to enhance the exportation because through the centralized system there is no any incentive to the factories.

So finally we decided to give more and more autonomy to factories, township factories and enterprises, private entrepreneurs to let them play on their own. Because that kind of reform China's foreign trade increased tremendously. This kind of structure cannot be changed. The most-favored-nation status the U.S. market is very important.

For some areas, especially in the Guangdong areas, the town, the woman lives in, is life and death question; is life and death issue.

I think if you revoke, if the American Government revoke the most-favored-nation status, the victim is definitely not Li Peng's Government. The victims will be the peasants, the township entrepreneurs, the private entrepreneurs, independent enterprises, and some other companies, even local governments. Local governments are not satisfied with hardliners. So we hope that the U.S. Congress will take a long-term perceptions on this issue. On the other hand, many, many other channels are open. You still can pressure on the Chinese Government for release more political prisoners, including our friends, and colleagues.

Thank you.

Chairman GIBBONS. Thank you, Mr. Li.

Mr. Lu.

Mr. LU. Thank you, Mr. Chairman.

Thank you for giving me this chance. I am proud to say something about this issue.

First, is about political and economic situation in China. To observe the situation in China from our side it is easy for people to get the impression that the Government suppressing policy is still being continued in Beijing and the reform process is in stagnation or being reversed.

This is true. However, another important fact is that the accomplishments achieved in reform in the past 10 years have remained basically in tact, and the attempts of the Li Peng Government have turned out to complete failure.

The Government suppressing policy has only been effective in the few big cities and those who persecuted by the Government gained widespread sympathy and support from ordinary citizens, Government officials and even policemen.

As time passed on, the suppressing policy will be less effective, while the reform force builds up its strength continuously. We believe that the American Congress and the public will not only consider the need to condemn the Government policy but also the necessity to protect and support reform forces.

The second point is the proreform force under MFN. The 10-year reform promoted the growth of the market-oriented social force. Local governments obtained more authority while enterprises have learned to respond to the market force. A large number of the entrepreneurs emerged during the process.

This phenomenon can be observed more clearly in the coastal area. And this area keeps close international trade and other foreign economic relationships. I meet a large number of the peasant entrepreneurs in the Guangdong and was very impressed by what they had learned in terms of the enterprise management and marketing.

To my knowledge, this proreform forces would be most seriously hurt if China's MFN status is removed. To my knowledge, now not my friends in the colleges many dedicated to the reform process in China and they still live and work in China is in support of the removal of the MFN. Even now conditions now renew of the status.

Third, human rights and the MFN.

As Mr. Li said, my colleagues and myself try to promote a dialog between the students and the Government in order to realize a more peaceful events during the Tiananmen Square movement. When this effort finally failed, we warned the students and the Beijing citizens of the Government plan to impose the martial law. Later on, we condemned martial law on the old demonstrations to impose the Government's action.

Some of our friends engaged in these activities are still in prison in Beijing. So our concern on human rights is not less than anyone else.

However, since the Government still tries to keep the proreform image past the effective resistance of the citizens and the Government's officials, the post-June 4 persecution has not been developed into the wide social suppression as was in 1957 under the Chau Chow revolution.

As my friend, Mr. Li, mentioned, according to the information obtained from a reliable source, a document aimed to reestablish the theory of class struggle under to stress the so-called imperialism under revisionism, were once prepared and put aside under Deng Xiao Peng with the excuse that reform and open door policy should receive high priority. Therefore, the continuous implementation of the open door policy and the existence of the close international contacts prevented the spread of the post-June 4 persecution carried out by the Government.

Removal of the conditional renewal MFN statutes definitely provide arguments for those who prepared the documents who intend to carry out suppression on a larger scale. This will cause further deterioration of the human rights situation in China, which our American friends would not like to see.

Finally, about appropriate signal. Maybe the gradually advanced reform is the most feasible approach. This requires the least social cost and we have devoted ourselves to promote the cost of this reform.

The June 4 events imposed a serious setback of this approach, however, since the reforms strategy enjoyed the widespread support recent party under the widest social group, there is a good possibility to resume this strategy of reform.

To keep close contact and to maintain the appropriate close reach of the China's economy will facilitate China to go back to this process. In China the reform in the past 10 years have accumulated complicated and sharp social and economic problems and are complete. There is definition of the reform process and poor economic policy brought on by the Li Peng Government. Without it, there are economic recessions in China are present.

To identify the problem. Under complete withdrawal some real turmoil of the society and that will wipe out the possibility of the resumption of the gradual reform process.

This is clearly not in the interest of the development of China and the stability of the Far East. To renew MFN status as decided by the Government and the Congress of the United States will represent a signal to China.

The Li Peng Government maybe deceive itself by arguing that this policy has gained the understanding of the American Government. However, to the people in China, this signal will mean the bankrupt of the rumor on the so-called seat of the imperialism. And the good demonstration of the good will of the American Government, the American Congress, and the American public toward Chinese people for the improvement of their last resort and the development of the China's economy.

Thank you.

Chairman GIBBONS. Thank you, Mr. Lu.

[The statement of Mr. Li and Mr. Lu follows:]

# STATEMENT

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# LI XIANGLU, LU MAI

Mr. Chairman, members of Committee:

We, Li Xianglu and Lu Mai, are testifying on behalf of ourselves in support of the renewal of China's Most-Favored-Nation status.

My name is Li Xianglu, now teaching as an international Fellow at the School of Business Management of Pepperdine University. I was a former assistant to the ousted refromist leader Zhao Ziyang, former Chinese Premier and Party General Secretary. I also took various senior positions in some national commercial organizations, such as Vice-president of China National Oil Development Corporation, and of China International Economic Consultants, Inc.

Mr. Lu Mai is the Director of Experimental Areas Office for Rural Reform under the Research Center for Rural Development which has been considered as part of Zhao's think tank. He was also Vice-president of Beijing Young Economists Association. He is on his leave for study in the Economic Institute, University of Colorado. He has substantial experiences on China's economic reform.

We believe that MFN does ont only serve the mutual benefits of both China and the U.S. in terms of economic interests, but also serve the purpose of improving human rights situation and encouraging the reformist forces in China.

I. Human rights improvement which now in particular,is related to the release of political prisoners, should be in our concern. However, before any measures are taken, the possible political and economic consequences should be evaluated first. It is understandable that the U.S. government wants to see the improvement of human rights situation in China by pressing the current Beijing regime economically. For instance economic sanctions are still in effect now. At this point, one has to remember that China has a long history of xenophobia which cautions a careful use of foreign pressure. The best example to this point is the economic and technological sanction on China by the Soviet Union in the early 1960s. Yet, it did not serve the Soviet intention, but rather Mao's regime tactically used it to shift the crisis caused by its fanatic economic adventure--the Great Leap Forward. The economic hardship was then said to be caused by the Soviet revisionist regime, and he called on people tightening their belts to repay debts to the Soviets. An anti-Soviet sentiment was fermented and had put a shadow on the Sino-Soviet relationship for decades.

A very traditional notion in China is that when a nation has her enemy, the ruler can easily rule, and the state is considered healthy. The notion was addressed clearly by a famous Chinese political commentator 900 years ago (Liu Zhongyuan). In the history, foreign hostility and foreign enemy give dictator an excuse to crackdown domestic opposition groups.

This teaching was recalled after Tiannanmen Square crackdown. ( See June 6, 1990 People's Daily.) The more external pressure is perceived, the more likely the Chinese hard-liners feel legitimate to bring back the self-sustained centrally planned economy and the totalitarian rule, to launch anti-American campaign in the name of national patriotism and to persecute those who have benefited from, and thus in favor of, the reforms and open policies, especially who have cooperated with Americans in various fields.

The problems that the Chinese economy is facing now are the results of the austerity program imposed by Li Peng, an advocate of central planning economy. One of the objectives is to force more and more autonomous collective and township enterprises to go bankrupt. And the revokation of MFN status will have the same result. Enterprises which suffer losses will be forced to seek governments subsidies -- eating out of big pot, at the expense of their autonomy. Only in this way, can Li Peng rebuild the command economy or at least, can he blame that foreign economic sanction is responsible for the economic failure.

II. Although it might be an opportunity to gain some improvement in human rights situation in China by playing the politics of MFN status, it is our belief that, in the long-run, the most effective and reliable way to improve China's human rights situation is to maintain an environment which would be conducive to reform and open policy. Thus, when conditions for renewal of MFN are made, one has to carefully balance the short-term effect versus the long term one.

Human rights situation in China, as known to all, has been greatly improved since the reforms started. Before the reforms, human rights was even not an issue in China. The mass arrests and execution affected millions people, and throughout the brainwash movements, even free thinking was prohibited. The June 4th crackdown does show a deterioration of human rights in China, but it is also a result of an improved environment for human rights -- more and more people have become aware of this issue and started to fight for it. A demonstration in Tiananmen square 13 years ago could only last for three days; but 13 years later, in the same place, another one lasted for 7 weeks. Even after the crackdown, a mass arrest plan just could not be carried out completely. The hard-line leaders have asked citizens to name the demonstrators, carders to make a list of them, but few citizens have done so, and most cadres have simply tried to protect their subordinates. There has been a big setback on the surface. However, if you go deeply into the society, every working unit, family, and individual is fighting against human rights abuse. This is an indication of how fundamentally the country has been changed by the reforms.

III. China has come a long way toward a market-oriented economy. Although China did not take radical measures, such as overall privatization, the central planning system has been fundamentally dismantled. The unique and popular approach was to introduce and establish an overall "contract responsibility system" in the sectors of agriculture, commerce, industry, and finance. As long as the profit target can be met annually, enterprise are free to manage their own units, trade goods in the market, set wage levels and to invest. The local governments gained even more autonomy through financial contracts with the central government. As for foreign trade, much more market mechanism was introduced. Enterprises took full responsibility for their profits and losses. Competition was tense otherwise U.S. customers could not enjoy the inexpensive commodities. Foreign and domestic currencies can be freely swapped in designated locations. The joint ventures and township factories in the Southern provinces are, among others, the most active in manufacturing for foreign markets. They are the major force in improving the U.S.-China trade. All these changes have taken roots in the everyday life of both ordinary people and party elite alike.

Without an excuse of a so-called external threat, current leadership can hardly enforce the repressive policy among officials and citizens. After ten years' development in both economy and polity, the reformers can not be easily eliminated. The reform-minded communists still have chance to win in the party. There is silent resistance to the hardliners. Even within the leadership, obvious disagreement exists with regard to important issues. Recent report reveals that even Deng Xiaoping is pushing Li Peng to keep on the line of open policy. That explains why Li Peng, the hard-liner Premier, fails to abandon the overall reform plan, although he tried to do so.

It is very likely that the Party's moderate group could resume power. The idea to let the current regime to collapse under the external pressure can not bring any better result for Chinese people. Revolution of Rumanian type should be avoided because the people will suffer a great deal in a civil war. Revolution from above -- led by reform-minded communists can give a communist country better chance to reduce the social conflicts in the transitional phase.

CONCUSION: Taking a long-term standing, we strongly urge that the Congress could consider the renewal of China's MFN status. Any attempt to combine political pressure with MFN status, such as conditional renewal, may run against the good intention, when one takes the Chinese political and economic reality into account.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I would like to thank the panel for their interesting testimony. Mr. Li, I just had one question. When you say, the market will be closed, you realize that we are not really closing the market, what we are doing is increasing the tariff, if we eliminate MFN?

Mr. LI. Yes, sir. I understand that there are some proposals about the conditional renewal. As I understand the conditional renewal cannot exert the effect as you want, as you expect. Because the mentality is different. The Chinese party, the Communist Party view the independence highly since it was established. So independence if somebody surrender to a foreign pressure they will be the least legitimized leader in the leadership.

Mr. SCHULZE. I guess I would like to ask the question of you and also Ms. Gong and Mr. Lu, that when you do have this large dichotomy in wages, where and I realize that we cannot necessarily use 18 cents an hour. But if we use even 50 cents or a $1 an hour, as a wage base, and I realize in the United States you cannot use $6 but maybe somewhere between $12 and $15. I know that industrial workers get up around $13.

But you are still talking about a tremendous difference in wage base between the two. It seems to me that that economic advantage is so great that unless we put on tariffs that were several hundred percent it really would not have any impact on the pricing of goods coming into the country. They would still be so competitive that it would not have those ripple effects or ramifications that they might otherwise.

I wonder if you might care to comment on that?

Ms. GONG. May I say something first?

Mr. SCHULZE. Surely.

Ms. GONG. OK.

First about your question of wages. The wage difference, actually wage difference is a different question from what is called efficiency. In China, we have a very low wage. Everybody knows that. But the problems is that we have very low productivity. So compared to the efficiency and productivity, the productivity in China is not so high. So the wage part is not as low as the people imagine.

Mr. SCHULZE. In some areas, Ms. Gong, I would agree with you, but in other areas the productivity rate is comparable to that in other parts of the world.

Ms. GONG. You mean Guangdong Province?

Mr. SCHULZE. Well, either that or in highly labor——

Ms. GONG. Labor-intensive?

Mr. SCHULZE [continuing]. Labor-intensive industries the advantages are significantly in favor of the Chinese product.

Ms. GONG. Actually on this topic I talked with some Taiwanese and Hong Kong businessmen and they tried to invest in mainland China and they said the low wage rates must be a very good benefit for them. But finally they found they were very disappointing because the first is the low productivity I mentioned before and second, the very backward machines and equipments. Third, is the bad management in China.

So compared to all of those disadvantages, I do not think the low-wage rate makes so much difference compared to the competition.

Mr. **Schulze**. In some, even agricultural products that could be advantageous—cut flowers, mushrooms—other items like that where the low wage is highly advantageous.

Ms. **Gong**. Yes, and too, I think that is a problem that the Americans should see that as another problem to us, to our Chinese.

I, myself, was a worker for 7 years in Guangdong from 1972 to 1979. I know that you mentioned the wages are very low, like 17 cents or even lower, but it is still very high wage compared to the auto workers especially compared to the workers in the state sector.

So if I got 17 cents in Guangdong, as a worker I would be very satisfied.

Mr. **Schulze**. Perhaps Mr. Lu?

Mr. **Lu**. I wish Chinese worker's salary as high as American worker. We can enjoy our life like Americans.

Mr. **Schulze**. There are times we wish the same thing, Mr. Lu.

Mr. **Lu**. From the 1984 to the 1986 Chinese workers' salary increased 20 percent every year. In 1987, it was 15. This average increase so fast that is the reason for the inflation, one reason for Chinese inflation.

So as Ms. Gong mentioned, our salary increased faster then the productivity.

Mr. **Schulze**. Mr. Li, do you have anything to add?

Mr. **Li**. I think I agree with the lady and this gentleman's opinion. I think that the major problem for so-called inflation was the increase of wages. They were very, very serious problem.

Actually the current, the problem is that the productivity is low, but the pressure from workers is very high. They want to have higher wages, higher bonuses.

So I am not so sure. I cannot remember the figure in Guangdong Province, but in other whole of China, the portion, I mean according to cost analysis, the portion wage comes about 20 percent of the whole cost.

And let me say it is quite high, it is very high compared with the standard in the West. So the major problem is that we have to enhance the productivity first. And the average wage at which level in Guangdong Province as in Shin Juin, is 50 percent as high as in Hong Kong now.

Mr. **Schulze**. You are right and those southern provinces are higher than the rest but all of the products do not come from that area. But I think you will agree that there is a major wage differential and a major advantage for all products coming from China and it is very strong.

One question further for Ms. Gong, and that is, you stated that we learned successful transition from authoritarianism to democracy will ultimately depend upon the success of converting a centrally planned economy to a market economy. That conversion, in turn, depends on the existence of private entrepreneurship and the size of the private sector.

Do you agree or disagree that the Central Government has tightened its control over state-owned enterprises and shut down thousands of privately owned firms, revoked export licenses of hundreds of firms and restricted foreign exchange allocations?

Ms. GONG. I want to address two things here. The first thing is that some people mentioned to me that the Chinese Government has cut back all the privileges the private entrepreneurs enjoy for years during the reform.

So actually I tried to call Guangdong Province a few days ago, after some of my relatives who are very position officials who are in charge of the economy there, and they told me that in the February of this year, 1990, they had a conference in Shin Juin and the Central Government reconfirmed all the privileges, the economic special zone in charge for years, even that they expand that.

So I asked them how about the private entrepreneur and the private sector and they said, it is expanding. It is still expanding. Partly because they enjoy some privilege and partly because they just ignore what the Central Government told them to do.

Mr. SCHULZE. You say that is in Shin Juin?

Ms. GONG. In Guangdong Province.

And that is the concrete information I got, and also——

Mr. SCHULZE. I can believe that is probably true in Guangdong, but would you say that is true in other areas as well?

Ms. GONG. I do not think so it is true, but I want to just the second point I want to address is that even in the state sector, even in if we want to decentralize the economy, we have to encourage the export-oriented section in the state economy.

Actually, I think the most distinguished feature of the central-planning economy is that it is a self-efficient economy and if we can encourage the export-oriented economy that part in the state sector economy, we are encouraging the change of the decentralization.

Mr. SCHULZE. Well, I would like to encourage more of that in the United States of America, as well. I would like to see us more export-oriented and get our business community headed in that direction.

Mr. Ye, and Ms. Burkhalter, I wonder if you would want to comment further on the emigration policies in emigration policies you have seen and quite frankly, that is the bottom line. That is what this committee must make its decision based upon. Whether those policies are freer now, or whether they are becoming more liberal and more easy or easier for people to utilize those emigration avenues than they have been in the past, and I would like to have your comments?

Ms. BURKHALTER. Well, as you know, Congressman Schulze, the President has two choices if he wants to extend MFN to China.

One is to say that China is in compliance with the Jackson-Vanik provisions, which means to say that emigration is free. He clearly cannot do that. The other choice then can only be that by granting MFN the very granting of it somehow helps make emigration freer, even if they are not already in compliance.

I think we must look at what happens since he granted it a year ago. As you know, last year's MFN waiver request came up on May 31, 4 days before the crackdown. And we have had a year then to evaluate whether or not the granting of MFN, which was done a year ago, enhanced emigration practices. I think the answer is, demonstrably, no.

The administration has said repeatedly that the numbers of Chinese coming out—and I believe the figure is on the order of 17,000—is about the same as it has been in years past, but that does not begin to tell the whole tale.

Qualitatively speaking, there have clearly been significant impediments to emigration. The real question is who is coming out?

People have been quick to say that emigration is limited by how many the United States will take but that does not tell the story either. Clearly, the students are not coming out, because there are new regulations and restrictions that say students have to work 5 years before they can apply to leave. So that very important part of the travel and emigration question has really deteriorated since Tiananmen Square. And of course, there is the whole issue of what it takes to get a passport.

As I discussed in my testimony and you mentioned in yours, we really think the process of getting a passport is being used by the police and the authorities to round up anybody who had been active in the democracy movement. I mean when you have to report on your activities during precisely the period of Tiananmen Square, before and during Tiananmen Square; you are required to report and have very labyrinthine Kafkaesque process whereby party official after party official has to sign off on your report, well, clearly nobody who was active in the democracy movement is going to put themselves at risk like that.

So in that regard the emigration process has significantly closed off.

Mr. SCHULZE. Thank you. Mr. Ye.

Mr. YE. I certainly agree with what Ms. Burkhalter just said. The President of the United States at the reporters' conference after he announced that he would grant the waiver to China said that China—in answer to one of the questions put forward by the journalists—he said that China has a law of free emigration

Actually this is not true. China has not codified any such law. And it has not codified in the past and it has not codified it now.

I have personal story to tell if you may want to hear. I came here in the winter of 1982. At the time when I applied for a passport to come here, my wife also got admission into an American college but they gave me the passport but not to her. Half a year later my wife gave birth to my daughter and then after repeated requests, they gave her a passport in 1984, but not to the baby.

So we had to leave the baby under the care of my wife's father. Then we tried and we tried and we tried and finally with the help of a personal friend who fortunately had some connections with local authorities, we finally got her out in the summer of 1988. When I went to the La Guardia Airport in New York to pick her up she was already 5 years old and that was the very first time I ever set my eyes on my own daughter.

So there is no such thing as a free emigration, notice all the restrictions after the June massacre. They now ask you to fill in a blank where it says, what is your performance during the turmoil? What is your performance during the rebellion? You need the unit authorities to sign, to clear you of your record before they give you a passport; all kinds of restrictions. There is no such thing as a free emigration.

Thank you.

Mr. **Schulze**. And you would say that——

Ms. **Gong**. Can I have some comment on that?

Mr. **Schulze**. Sure, in just a second.

Ms. **Gong**. Thank you.

Mr. **Schulze**. You would say that is really retarding emigration and actually a threatening type of action rather than a benevolent type of action?

Mr. **Ye**. Yes, I would say so, particularly after last June.

Mr. **Schulze**. Perhaps you would like to spend just a couple of seconds telling us about the constitutional aspects of the freedom to emigrate? Has there not been a change in the constitution where freedom to emigrate was, at least obliquely referred to in the past, but now it is not?

Mr. **Ye**. You mean the Chinese constitution?

Mr. **Schulze**. Yes.

Mr. **Ye**. Under the current hardline leadership what they stipulate, even in the constitution actually calls for nothing. They, in the Chinese constitution passed some year ago, in the People's Conference, according to that constitution, we, Chinese, have the fundamental basic human rights of free press, all of those free things, but none of this actually means anything. They have all of this black and white in the Chinese constitution, but it means nothing.

We, who were born and brought up in the country, know how much those dictators say counts.

Ms. **Burkhalter**. I do not know if there have been constitutional changes, Mr. Schulze.

Can I get back to you for the record, after I have checked with our Chinese experts on that?

Mr. **Schulze**. Sure. It seems to me that there was a change from the 1954 constitution, was it, in which there was a mention of emigration to the last two constitutions, that has been left out, but I do not know the exact details.

Now, Ms. Gong, you wanted to comment?

Ms. **Gong**. Yes, thank you.

Actually I think there is no such kind of thing as called free emigration in China. And that, yes, in China you know, law is much less important than relocations, so-called relocations. So if you want to you want to trace for the free emigrations, you trace the relocations.

Now, I know the Chinese People's Congress is still what the so-called emigrations laws or something in 1984 or 1985 to permit free emigration. I think that is also under the pressure of the United States and the world.

And also every Chinese has some personal story on free emigration and the, you might say, well, my husband came first and they would not allow me to come. So if you would not have your passport in front of your door, so that finally they gave me a passport.

I think that is not the issue. The issue is that if we revoke the MFN it will make the emigration situation much worse, much worse. That is why my colleagues, many colleagues in China try to call me and urge me to tell you, do not let the United States take back the MFN. Otherwise, they will not let us go. They are still applying for passport.

Also I want to say something that is a little bit irrelevant, but maybe it is relevant to your Congress. The most difficult thing in China is especially the Chinese students to emigrate. The most difficult thing is not to get the passport but to get a visa in the U.S. Embassy.

Thank you.

Mr. **Schulze**. Let me quote, I have been handed a note that the People's Republic of China Constitution does not address the issue of the right of its citizens to emigrate. The Library of Congress Law Division Report states and I quote,

> One can conclude that Chinese citizens do not enjoy such a right under the constitution, given the fact that it does not even accord them the right to freedom of residence.

Such a protection had been guaranteed under the 1954 constitution but was removed from the 1975 and 1978 constitutions as well as the 1982 constitution.

Now, Mr. Li, you were going to comment?

Mr. **Li**. Yes, I would make some comments, first, about the free emigration. Unfortunately, the constitution hasn't got, you know, much importance as the U.S. Constitution has. But through the reform years, the Government, the Central Government was trying to improve that kind of a situation. Actually, we lifted a lot of restrictions on emigration. The promise that sometimes we were told many stories, sad stories about separation of families, but problems were caused not according to law, according to regulation, just some low-level cadres wanted to abuse their power, wanted to get corrupted. We were trying to eliminate that kind of phenomena.

Some stories are not the fault, is not from the Central Government. Of course, I don't protect the current leadership, but you have to make clarification for—I mean clarity. It makes things clearer. What kind of case is from the Central Government regulation which restricts free emigration? What case is from the local cadres, the little cadres? They want to play some politics on the subjects that is different.

But many, many friends of mine, their wives can easily come here. They came.

Mr. **Schulze**. Mr. Li, this committee has a long record of dealing with family reunifications with governments all over the world. And I have got to say I am sure the chairman has been involved with many, many of them. Not as many lately perhaps as years ago, but we are very familiar with that, and we are very familiar with utilization by governments of retention of a portion of the family. And, you know, that causes us great concern when we see that happen.

I thank you for your testimony, and I thank you for your indulgence, Mr. Chairman.

Chairman **Gibbons**. Certainly. Certainly. I want to thank all of you for coming and helping us with this tough problem. We will remember your contributions and see what we can do to solve the problem.

Thank you very much.

Mr. **Li**. Thank you.

Chairman GIBBONS. The National Association of Manufacturing Technology, Mr. Clevenger; Russ Berrie & Co. of Oakland, N.J., Curts Cooke; the International Trade Council, Peter T. Nelsen; and the National Association of Manufacturers, Howard Lewis.

All right. Mr. Clevenger.

## STATEMENT OF JEFFREY A. CLEVENGER, PRESIDENT, SAGINAW MACHINE SYSTEMS, INC., SAGINAW, MICH., AND MEMBER, GOVERNMENT RELATIONS COMMITTEE, NMTBA—THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY

Mr. CLEVENGER. Mr. Chairman and members of your subcommittee, I want to thank you for the opportunity to come before you today.

I am Jeffrey A. Clevenger. I represent the machine tool industry, specifically NMTBA, the Association for Manufacturing Technology. Additionally, I serve on their government relations committee, and I am a private industry person, president of Saginaw Machine Systems in Saginaw, Mich.

You have a complete text of my notes?

Chairman GIBBONS. Yes, sir. All of the text will be included in the record.

Mr. CLEVENGER. I will be brief and to the point.

A struggling machine tool industry is a threat to America's national security and economic stability.

Unfortunately, for varied reasons, the industry is struggling. We appreciate the support that this committee and its members have provided over the years in that struggle. Currently, however, imports account for approximately 50 percent of the value of machine tools consumed in the United States.

Despite these facts, the U.S. machine tool industry is determine to survive. And one of the ways that we are fighting back is through the export of machine tools to markets such as China. China represents a wealth of opportunity for our industry. And we have made a real effort to increase our market share there.

In 1975, NMTBA was the first industrial trade mission to China since World War II. Since then, we have hosted Chinese buying missions to the United States for machine tool users. Since then we have held a series of technical seminars and put on three solo trade shows in China. Last year, NMTBA had a pavilion at the China International Machine Tool Show with 47 member companies exhibiting.

My company has been doing business in China since 1984. Currently, we are very near closing on two more multimillion dollar contracts to China's growing automotive industry. My written statement illustrates that the 15-year effort to build ties with China has really paid off, not only for the machine tool industry but for many other American industries. The Chinese market has proven so lucrative that U.S. exports would be crippled, and thousands of American jobs would be lost if normal trade status with China were denied.

Nonetheless, we must watch as some in Congress attempt to damage this Nation's reputation as a reliable trading partner in China. If they are successful, we will then have to watch as the

Chinese look to do business with other suppliers, suppliers who are not subject to the on-again/off-again trade policy to which American companies are subjected.

The Chinese people also have much to lose if normal trade status is not renewed. Trade is a means of contact between them and the Western World. It is a major source of our ideas, our knowledge and our principles. Frequent contact with the West is what has planted the seed of the democratic ideal in the minds of the Chinese people.

I was in China for the China International Machine Tool show last June. And I left a few days before the atrocities at Tiananmen Square. We all felt anger and disgust at the complete disregard of human rights displayed there.

The administration and Congress imposed sanctions on the Chinese Government that are still in place today. Tying the continuation of normal United States/Chinese trade status to its general recognition of human rights would be misdirected. U.S. exports, U.S. businesses, and U.S. workers would become the true victims. American will have once again aimed at the heavens but shot itself in the foot.

On behalf of America's machine tool industry, I urge you not to repeat the mistakes of the past. I urge you to support the President by granting China a 1-year waiver of the Jackson-Vanik restrictions.

Thank you.

[The statement of Mr. Clevenger follows:]

STATEMENT BY
JEFFREY A. CLEVENGER
PRESIDENT
SAGINAW MACHINE SYSTEMS, INC.
APPEARING ON BEHALF OF
NMTBA - THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
U.S. HOUSE OF REPRESENTATIVES
JUNE 19, 1990

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## I. INTRODUCTION

Good morning, my name is Jeffrey A. Clevenger. I am President of Saginaw Machine Systems, Inc., with operations in Saginaw and Troy, Michigan. I serve on the Government Relations Committee of NMTBA - The Association For Manufacturing Technology, on whose behalf I testify this morning. NMTBA is a trade association representing over 300 machine tool building firms with over 400 locations. In addition, I am Chairman of the Michigan Manufacturing Technology Association (MMTA) -- a three-year-old organization of Michigan-based machine tool companies which helps promote Michigan machine tool exports. Accompanying me this morning is James H. Mack, NMTBA's Vice President of Government Relations.

We appreciate the opportunity to address the Subcommittee on the importance of U.S.-China trade relations. We support the President's extension of normal trade status to China and oppose any attempts to set conditions on that extension.

## II. THE STATUS OF THE U.S. MACHINE TOOL INDUSTRY

America's machine tool industry builds and provides to a wide range of industries the tools of manufacturing technology including cutting, grinding and forming machines, universal measuring machines, and automated manufacturing systems. Although our industry is relatively small by some standards, it accounts for a very basic and strategic segment of the nation's industrial capacity. Not only does our industry build the machines essential to our military readiness and our ability to respond quickly and effectively in the event of a national emergency, but it also builds the product which underlies virtually every other commercial product. Machine tools are the very essence of the industrial manufacturing process. They are the "tools of production." Our industry is the belt that holds up the pants of America's military and economic security.

A struggling machine tool industry is a threat to the stability of the United States' industrial base. It truly jeopardizes national security. Unfortunately, for varied reasons, the industry is struggling. During the past several years, U.S. machine tool builders have seen a substantial reduction in their customer base. Many machine tool consuming industries have moved manufacturing capacity offshore and equipped their facilities with foreign-made machine tools. Many of the manufacturing firms that have retained U.S. production facilities have also purchased foreign machine tools. They have, in fact, opened a floodgate of imports -- which now represent approximately 50 percent of the value of machine tools consumed in the United States.

## III. THE CHINA EXPORT MARKET

Despite these facts, the U.S. machine tool industry is determined to survive, and one of the ways we are fighting back is through the export of our machine tools to markets such as China. China represents a wealth of opportunity for our industry, and we have really made an effort to increase our market share there. In 1975, NMTBA was the first industrial trade mission to China since World War II. In 1977 and 1979, we held a series of technical seminars there, and in 1978 and 1980, NMTBA hosted Chinese buying missions to the United States for machine tool users. This culminated into a machine tool exhibition in China in 1983. NMTBA put on two subsequent solo trade shows in China in 1985 and 1987, and last year, we had a pavilion at CIMT, the China International Machine Tool Show, with forty-seven of our member companies exhibiting. We have made a tentative commitment to return in 1991. My company, Saginaw Machine Systems, has been involved and doing business in China since 1984. Currently, we are very near closing two more multi-million dollar contracts to China's growing automotive industry.

The effort our industry has put into building ties with China has paid off. Exhibit A shows that U.S. machine tool exports to China topped $40 million last year. In fact, China was the seventh largest export market for U.S. machine tools in 1988 and 1989. Now we are faced with seeing all of our time, hard work, and money go down the drain if normal trade status to China is denied.

The machine tool industry is not the only industry in the U.S. that values current trade relations between this country and China. A wide cross-section of American industry, as diverse as agriculture and aerospace, is voicing concern over any attempt by Congress to disapprove normal trade relations to China or to attach conditions to their approval. Exhibit B illustrates why. U.S. merchandise exports to China totalled nearly $6 billion in 1989. If normal trade status is not extended to China, the Chinese will certainly retaliate by refusing to import from the United States. Business ties that this country's industries have worked so hard to build will be severed in a heartbeat. The Chinese will simply look to our foreign competitors, who are not considering revocation of normal trade status. U.S. exports would be crippled and thousands of American jobs would be lost at a time when our global trade deficit is close to $120 billion. This type of trade policy makes no sense. By denying normal trade status to China, the United States would be risking our own economic stability and national security.

## IV. THE U.S. WOULD BE REGARDED AS AN UNRELIABLE TRADING PARTNER

This is not the first time that the machine tool industry and U.S. industry, as a whole, have suffered at the hands of the U.S. government's inconsistent trade policy. Our competitive posture in Eastern Europe and the Soviet Union has been severely damaged by an outdated and inconsistent export control system. The U.S. position with regard to export controls was initially so out-of-tune at the COCOM negotiations this year in Paris that it almost caused the demise of COCOM. Luckily, the Administration yielded their position. However, we are not out of the woods yet. Hopefully, the Export Facilitation Act of 1990, which just passed the House, will soon become law putting an end to many of our problems in the export control area. I thank the members of this Committee that voted favorably for the legislation, and I specifically want to commend Chairman Rostenkowski and Congressmen Frenzel, Gibbons, Sundquist and Vander Jagt for their eloquent "Dear Colleague" letters and statements on the House floor.

Now, we are watching as some in Congress attempt to damage our reputation as a reliable trading partner in China by revoking or setting conditions on normal trade status with China. How can we expect any savvy Chinese businessperson to do business with a U.S. company that is subject to on again-off again trade policy? What would be done about parts and service? The intelligent thing for the Chinese to do would be to seek other suppliers who will be there in the future, and that is exactly what they will do. American industry will be left out in the cold once again. I am at a loss to explain how this country possibly expects to survive (let alone, prosper) in the global marketplace by alienating or appearing to be unreliable suppliers to our trading partners.

## V. TRADE IS THE SOURCE OF WESTERN IDEAS

Probably the most tragic players in this drama are the Chinese who continue to fight in the name of freedom. They are the people we all must support. However, they stand to lose much if the U.S. severs ties with China.

Trade is the means of contact between the Western world and the Chinese people. It is a major source of our ideas, our knowledge, and our principles. Thousands of Chinese have gone abroad to study the Western methods they have seen, and when each returned to China, a piece of the Western world went with them. Frequent contact with the West is what has planted the seed of the democratic ideal into the minds of the Chinese people.

American presence in China symbolizes the reform for which the Chinese people dare to fight. We are their source of strength. Many Chinese patriots recognize this and support continuance of normal trade relations between their country and ours.

## VI. CONCLUSION

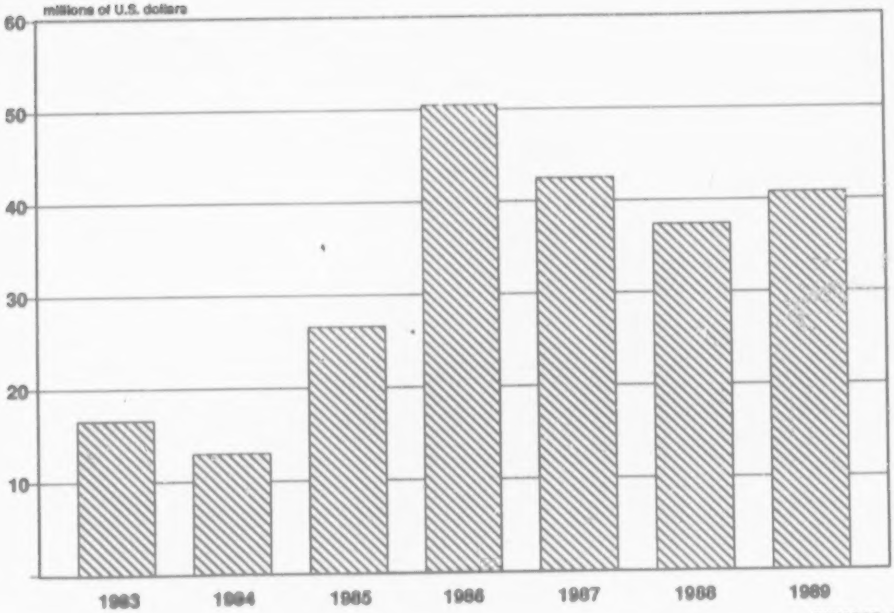
I was in China for the China International Machine Tool Show last June and left a few days before the atrocities of Tiananmen Square. We all felt anger and disgust at the complete disregard of human rights displayed there. The President and the Congress responded by imposing sanctions that remain in place today -- including halting of U.S. weapons exports to China, opposing a resumption of World Bank and Asian Development Bank lending to China, and suspending the relaxation of export controls on high technology shipments to China.

The Jackson-Vanik Amendment expressly ties normal trade status to emigration policy, and under this U.S. law, China qualifies. However, tying the continuation of normal U.S.-Chinese trade status to the Chinese government's general recognition of human rights would be misdirected. If normal trade relations are denied -- U.S. exports, U.S. businesses and U.S. workers will become the true victims.

America will have once again aimed at the heavens but shot itself in the foot. On behalf of America's machine tool industry, I urge you not to repeat the mistakes of the past. I urge you to support the President by granting China a one-year waiver of the Jackson-Vanik restrictions.

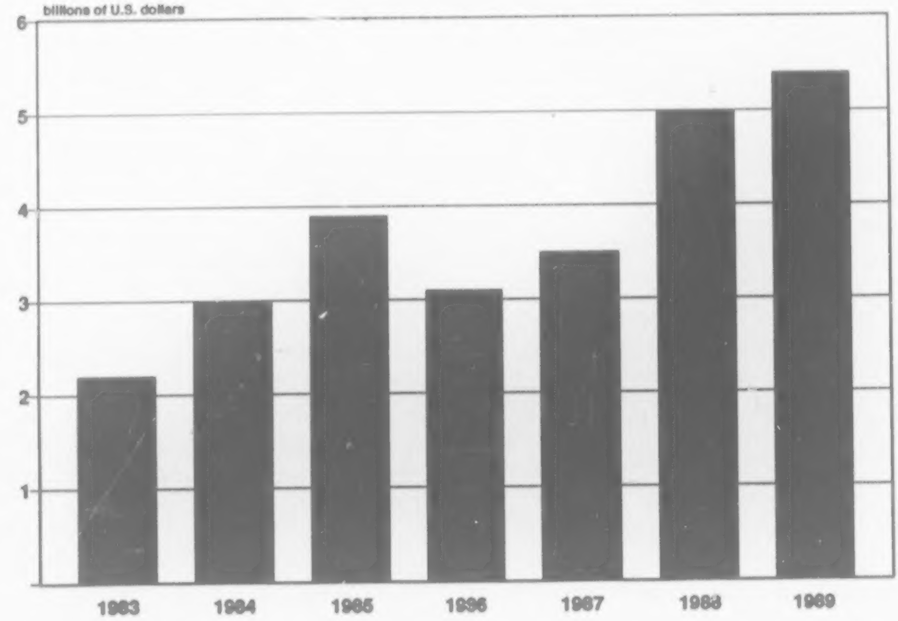
Thank you. I would be pleased to respond to your questions.

EXHIBIT A



U.S. Machine Tool Exports to China

EXHIBIT B



U.S. Merchandise Exports to China

Chairman GIBBONS. Thank you.
Mr. Cooke.

## STATEMENT OF A. CURTS COOKE, PRESIDENT AND CHIEF OPERATING OFFICER, RUSS BERRIE & CO., INC., OAKLAND, N.J.

Mr. COOKE. Mr. Chairman, members of the committee, thank you for the opportunity to appear before you today.

I am president and chief operating officer of Russ Berrie & Co. We are defined as an impulse gift company. We primarily sell stuffed animals, mugs and key rings, and items of small value that are purchased on impulse by the consumer.

We are a New York Stock Exchange company. We did about $250 million in business last year. We are profitable and we are a financially strong company. We have facilities in New Jersey, California, Georgia, Texas, and Ohio. And, in addition, we have 600 salespeople throughout the United States calling on 80,000 retail customers, primarily what we define as Ma and Pa retailers.

We have a total of over 1,600 employees in the United States. And our product line is 10,000 items.

At the present time, our principal countries for production are China, Thailand, Korea, Taiwan, Hong Kong, Indonesia, Philippines, Mexico, and the United States.

In 1990, we expect to purchase $50 million in products from China, principally stuffed animals. At the consumer level, that is roughly $300 million.

We are very concerned about MFN in that the loss of MFN would be disastrous to our company. Duties on stuffed animals would go from 0-percent to 70 percent. The $300 million would become——

Chairman GIBBONS. Pardon me. Did you say 70 percent?

Mr. COOKE. It would be zero to 70 percent.

So the $300 million would become $500 million. More specifically, a teddy bear today that the consumer can purchase for $9 would be $14.45. A teddy bear that today is $15 would be approximately $25.

We cannot expect the ultimate consumer to be able to absorb this huge cost increase. Our purchases are made by children, young parents, grandmothers, grandfathers, et cetera. What would happen if MFN was canceled is that we would have to cancel our orders in China. We believe we would go out of the stuffed animal business in regards product coming from China.

There are currently no alternative sources of supply. It took us almost 8 years of slow development in China to produce the product to the quality standards that we require, and to the delivery timetables that are important to meet the various seasons of the year, as well as everyday product.

We would lose a substantial portion of our sales and, most likely, would have to reduce the work force in the United States by our estimates of 300 to 400 people.

We are also very sympathetic to the plight of the Chinese people. We have over 30 factories in China where our products are made. These factories are generally owned by local people or by people from Hong Kong, and generally are in the area near Hong Kong in the South China Rim. If we cancel those orders, the approximately 10,000 people employed by the 30 factories will lose their jobs.

We have estimated counting other workers in the toy industry, there are over 1 million people in that area of China making products similar to ours. These workers are our friends. They have learned democracy. They have constant contact with people from the United States, from Hong Kong, and have improved their standard of living because many of those areas didn't exist 10 to 15 years ago. People from all over China have moved into these areas because of the opportunities to improve their standard of living. Loss of MFN will mean loss of contact with these people. They will look at us as abandoning them.

At the same time, if MFN is revoked, it will have a disastrous impact on Hong Kong. I was just recently in Hong Kong, and there is tremendous instability by the people that I am in contact with, with the managers. For the most part, all are concerned about the future and are making plans either to leave now or plans to leave for the future if things turn sour.

If we were to lose the ability to produce in China, many of those people would pack up and move sooner. These are the management people, the college educated and industrialists, they would be able to get out leaving workers, which I believe would have a tremendous negative economic impact on Hong Kong.

At the same time, the loss of MFN would have an impact on the USA. Without the inflow of our currency into China, they would not be able to buy the products, wheat, airplanes, fertilizer, machinery and equipment, thus a negative impact on our economy.

I believe, in conclusion, that trade sanctions should not be used as leverage for political problems. There must be other ways.

Let me tell you a little story that I think puts it all together. About 2 months ago, I was in China in a city close to the border of Hong Kong. I had the opportunity to visit a kindergarten in an afternoon. These little children, 4½, 5, 5½ years old, put on a little show for a group of tourists, about 20 of us. They sang, they danced. They even had a little girl, 5½ years ago, play the accordion, and she played Western songs. At the end of their little performance, with their smiling faces, they came into the audience and shook hands with the tourists. They said hello, they said welcome, they said goodbye. These children are the future of China. Their parents are working in our industry. They are our friends.

We should focus on the long-term outlook for China and not the short term by taking away MFN.

Thank you.

[The statement of Mr. Cooke follows:]

RUSS®

RUSS BERRIE and COMPANY, INC. 111 BAUER DRIVE OAKLAND, NEW JERSEY 07436 (201) 337 9000

# TESTIMONY OF RUSS BERRIE AND COMPANY, INC. ON U. S. - CHINA TRADE RELATIONS BEFORE THE SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS

**BY: A. CURTS COOKE, PRESIDENT AND CHIEF OPERATING OFFICER**

**JUNE 19, 1990**

My name is A. Curts Cooke. I am President and Chief Operating Officer of Russ Berrie and Company, Inc., of Oakland, N.J., a public company whose stock is traded on the New York Stock Exchange. Our company employs over 1600 people in the Unitetates and in addition to New Jersey, we have facilities in California, Georgia, Ohio, and Texas. We employ a sales force in each of the fifty states. Last year our sales were $246,000,000.

Our company develops and markets a vast selection of impulse gift products to retail stores in the United States, Canada, England and most of the countries in the world. We sell more than 10,000 different products, most of which are produced in the Far East.

I am appearing here today to express our concern regarding the continued "Most Favored Nation" (MFN) status for the People's Republic of China.

While we have our products manufactured in Korea, Taiwan, Hong Kong, Thailand, Indonesia, The Philippines, Mexico, and the United States, China is our single most important source of product at this time. We estimate that we will import almost fifty million dollars worth of product from China during 1990. The loss of MFN duty treatment for these products would be disastrous for our company and for the toy and gift industry as a whole.

We import millions of dollars worth of stuffed animals from China which currently enter the United States free of duty. If MFN status was revoked the duty on these products would rise to 70%. This cost increase would have to be passed on to the ultimate consumer, usually families with small children and the grandparents of small children, people who we are certain will be unable to pay this huge cost increase. We would therefore have no choice but to cancel our orders and reduce our imports and sales.

There is no alternative source of supply presently available anywhere in the world that could fill the demand that would be created due to the loss of imports from China. The loss of imports from China would cause us to lose a substantial amount of our sales. We estimate that some three to four hundred Russ Berrie employees would either temporarily or permanently lose their jobs. We do not believe that the story would be any different for others in our industry, and we could easily foresee thousands of people unemployed in the toy and giftware industry alone.

We do not want the Congress to think that we are unsympathetic with the plight of the Chinese people in these difficult times, but we are fearful that the action contemplated to remove MFN status for

China would be more damaging to the Chinese people and their fight for democracy. We estimate that our imports from China presently employ some 10,000 workers. If MFN is lost, we would have to cancel all of our outstanding orders and look for alternative sources of supply. We believe that all of the workers who make our products would lose their jobs. Add in all the other Chinese who are currently producing products for the United States market and we believe that well over a million workers in China could lose their jobs as a result of the loss of MFN status.

These workers are our friends. They work with us and have learned about America and Democracy from the continuous contact that they have with Americans. Cutting business ties and putting the workers out of work could easily undo all the positive gains, economic, social and political, that China has made in the last ten years. It would give the leaders in Beijing ammunition to use against the United States by creating economic unrest within China. We are fearful that the workers, who are more concerned with feeding and caring for their families then they are with politics, would see our actions as an abandonment of them after the promise of the improved living standards that we have been giving them for the past ten years.

We are not diplomats and we are not politicians. We cannot offer you alternative solutions that would force the Chinese leaders in Beijing to continue on the path towards democracy in China. But, as businessmen, our experience in China over the years has shown us that as we expanded our economic contacts with the Chinese people, their lives improved in all aspects. There was more food, better living conditions and an easing of the political situation to the point where people found the courage to stand up to repression. We believe that the continued economic contacts with China and its people will in the long run aid in the growth of democratic ideals and bring about a peaceful democratic revolution as we see happening in Eastern Europe.

I would like to thank you for this opportunity to speak to you about our concerns, and urge that you not remove MFN treatment for Chinese products.

Chairman GIBBONS. Thank you, Mr. Cooke.

Mr. Nelsen.

## STATEMENT OF PETER T. NELSEN, PRESIDENT, INTERNATIONAL TRADE COUNCIL, ACCOMPANIED BY MARIE A. BOISEN, DIRECTOR OF RESEARCH

Mr. NELSEN. Thank you, Mr. Chairman and members of the committee, we appreciate being here.

I am Peter Nelsen and with me is Marie Boisen, and we represent the International Trade Council, a trade association representing companies that import and export. They are all U.S. companies.

We are very much in favor of renewing the MFN status for China. An increase in tariff between China and the United States would simply be a tax on the U.S. consumer. There are plenty of existing sanctions that the President has imposed, that Congress has endorsed either explicitly or implicitly, so that any additional sanctions such as the loss of MFN would have no more effect than the previous ones.

By the way I am summarizing my statement. I believe you have the whole statement.

Chairman GIBBONS. Yes, sir, your statement will be in the record in full.

Mr. NELSEN. Thank you.

U.S. companies are already cutting back in China, and it is unreasonable to force U.S. companies to disinvest after they have been encouraged to invest in China for the last several years.

Amnesty International rates China at about one-third from the bottom of their list of countries being rated which is about 150 countries. While conditions are bad there, they are as bad or worse in a third of the rest of the countries in the world. Unfortunately we cannot afford to just choose to deal with people who are nice and democratic. The world is not like that.

If you look at the cultural background of China, it has never buckled under to anyone, and historically there is just no reason to believe that all of a sudden they are going to say, yes, sir, when we demand the release of prisoners and so on.

Historically the United States, U.S.S.R., and the People's Republic of China have formed a balance in geopolitical and military terms and I believe that is why Kissinger went to China in the first place to try and pry them away from the Russian side of the fence to the center of the fence. I think that is a consideration that has not been brought up in these hearings today so far.

But China is an important—you certainly cannot call them an ally—but an important force to be dealt with in the future at least until we disarm with Russia which does not look like it is about to happen immediately.

Going back to the economic issues, the U.S. consumer is the one that would be hurt. If we want to stop inflation which is one of our domestic goals, we need more goods in the marketplace at reasonable rates. Consumer goods from China have filled that need. Trade sanctions in the past have not worked. We could not make Cuba buckle under. We could not even make Panama buckle under. The effect on South Africa is marginal as they were going toward democracy and equalization before. They may have been induced to do it a bit faster but historically trade sanctions have not worked.

There are 99 countries, I believe that have the most-favored-nation status with China and they would love to have us pull out of the market to lessen the competition for their producers. The only people that would be hurt by loss of MFN status would be the U.S. consumer and the U.S. producer. The U.S. producer not only for the benefit of the U.S. economy, but parts that are being imported from China that become part of whole products that are reexported out of the United States. So that loss of MFN status would make us less competitive in the world market again.

The Asians have a preference for dealing with other Asians. They have a cultural history that is hard to explain, but I think we all know what we are talking about. Just like some folks here find it easier to communicate with Europeans, Asians, even though they have fought with each other for thousands of years, still prefer and understand their immediate neighbors better.

Thus, the U.S. producer is at a disadvantage in dealing with them.

The United States has a case of latent mercantilism as I call it, where trade in general has been used as a tool of the State Department to impose U.S. policy on the rest of the world. That has put U.S. producers at a tremendous disadvantage in some countries.

This may not be the time to discuss it, but the definition and the interpretation of the commerce clause in the constitution where Congress shall control trade, I would like to, at some point, submit a paper on the definition of control. Are we controlling it for the benefit of the U.S. economy or are we controlling it for the benefit of teaching the world to look at things in our way?

I believe that we are one of the last countries in the world that are really imposing mercantilism as a policy—I am talking about the OECD countries primarily, which are doing business wherever they find markets while we have to do business where people think the way we do.

So much for that.

Retaliation as has been said before would hurt the U.S. agricultural sector, the aircraft manufacturing, machine tools, the chemical industry, a lot of industries that are dependent on potential markets in China and in the long run, it is hard to turn your back on a quarter of the world's population.

If we look 10 to 20 years down the road, China will come along. As was said this morning, the leadership are composed of men who are in their seventies and eighties and time changes very fast sometimes, as it did in Europe when 6 months ago nobody expected anything to change and all of a sudden the wall came down and it was a new day.

So it would be very shortsighted of us to deny the MFN status. I will stop at this point, because everything else that I have in my notes has already been said this morning.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

[The statement of Mr. Nelsen follows:]

Statement of Dr. Peter Nelsen, President
International Trade Council &
Marie A. Boisen, Director of Research,
International Trade Council
before
The U.S. House of Representatives
The Committee on Ways and Means
19 June 1990

Mr. Chairman and members of the Committee, we thank you for this opportunity to submit testimony before the Subcommittee on Trade.

I am Dr. Peter Nelsen, an economist and President of the International Trade Council (ITC). My associate is Marie A. Boisen, Director of Research. ITC is a trade association dedicated to the expansion of free trade world-wide. The companies we represent are largely U.S. based.

We wish to address the issue of the US-Chinese trade relations, including a discussion on China's most-favored-nation (MFN) status.

## I. THE NATURE AND EXTENT OF TRADE WITH CHINA

The People's Republic of China (PRC) was first granted nondiscriminatory MFN trade status on 1 February 1980, and it has been renewed annually ever since. Following the granting of MFN status, bilateral trade rose four-fold, reaching $18 billion in 1989.[1] If China's MFN status is revoked, US imports will be subject to non-MFN duty rates of about 60 percent.[2] This status also affects Hong Kong; approximately seventy percent of China's exports are routed through Hong Kong.

## II. EFFECT ON PRC AND IT'S REFORM MOVEMENT

The consequences of denying the PRC the same trade status enjoyed by some 178 other nations will be counterproductive with respect to reform efforts in China and will undermine both US consumer and producer interests.

The Chinese reform movement is fueled by the individuals desire for civil rights, a higher standard of living, and opportunities to better their quality of life. Among the strongest supporters of reform are the provincial governments in Southern China. US and Hong Kong companies have made the majority of their investments in these provinces. Hurting those provincial governments, and the companies with investments there, not only limits the opportunities of those reform-minded activists and citizens residing there, but also hinders the current efforts to achieve respect for basic human rights in China. In a sense, the most reform-minded part of China will be punished most if MFN is ended. This, in turn, would also undermine those American companies with major investments in Hong Kong, which is China's largest trade partner and one of the world's few free-trade centers. Consequently, Hong Kong would suffer heavy losses.

In recent years trade between the US and China has been steadily expanding, reaching $18 billion last year. Two-thirds of that was Chinese exports. If MFN status is not renewed, that figure will drop by about 30 percent.3 Hong Kong will lose close to $10 billion worth of trade a year. This will have a major impact on the 900 American companies which conduct $6 billion worth of business there, especially considering the bulk of that figure is related to investments in China.4

III. Effect on US

China is a principle supplier for certain retail goods. Without MFN status the average tariff on imports from China will rise from nine to 50 percent according to the US-China Business Council.[5] The major US imports are toys, games, sporting equipment, apparel, footwear, and crude oil. Without MFN status tariffs on clothing will rise tenfold to 60 percent, while tariffs on toys will rise to 70 percent. For example, Teenage Mutant Ninja Turtle toys, which are made in China by a Hong Kong-based firm, will almost double in price. Many other goods, like shoes and clothes, are essential to lower-and middle-income consumers attempting to make ends meet. The increased tariffs inevitably will translate into price hikes and would hit those low-and middle-income families hardest. These consumers need to be able to buy at competitive prices and cannot afford a large price increase for their essentials. Likewise, as the prices rise on Chinese goods, they may become priced completely out of the US market because of the high tariffs. This may result in forcing US companies to switch to other foreign producers, a time-consuming and costly process. Toy companies such as Mattel Incorporated and Kenner Products Incorporated, clothiers like Levi Strauss and Company, and department stores like K-Mart Corporation and The Limited will be hit especially hard.[6]

All Americans are outraged by the Peking Governments blatant disregard for basic human rights, however if we continue our economic presence, we have an opportunity to share our views with the Chinese provincial governments. Our presence also provides a bargaining chip with the Chinese government by giving us input on policies which affect US companies. Likewise, if we compel the

US companies to pull out by making their investments unprofitable, we also cut off our opportunities to protest. The Chinese government will have no reason to recognize our protests. We must consider that if we pull out of the Chinese market, someone else will step in. As a result, the US will lose the market permanently. However, if our presence is continued we not only help American consumers and producers, but also the Chinese citizens looking for information and opportunities to strengthen their reform movement.

## IV. RETALIATION OF PRC AGAINST US EXPORTS

The US exported nearly $6 billion in goods to China in 1989. Those exports included wheat, commercial aircraft, phosphate fertilizer, and high technology equipment, such as computers and scientific equipment.[7] It is a historical fact that just as a country can open up its economy, it can just as quickly close itself off. China has demonstrated its willingness to retaliate in the past. Just as our exporters are finally regaining their competitive edge throughout the world, we will be putting our agricultural commodities and manufactured goods at risk. Moreover, the economic sanctions which were implemented after the Tiananmen Square incident are still in effect.[8] Therefore, for our nation to prosper we need to keep the US-Chinese markets open.

## V. CONCLUSION

We conclude that denying the People's Republic of China MFN trade status will have several detrimental effects. First, international trade will suffer. US imports on Chinese goods will be subject to an import duty of approximately 60 percent. This will hurt US companies, including those trading through Hong Kong. Second, refusing to grant MFN status will be detrimental to the Chinese reform movement. It will limit their access to outside information and interests. Denying MFN status also will limit the resources available to those within the movement. Third, US consumers are put at a disadvantage by having to pay more for basic consumer goods.[9] The opportunities available to US companies will be limited due to less competition, especially those who were encouraged to invest and now have established large investments in China. Finally, it will open the doors to retaliation by China.

The US wants to express it's anger over the Chinese government's actions, however, if we respond with a denial of MFN trade status we may find ourselves completely out of the picture. Scorned in the American market, Chinese trade officials and plant managers not only may turn to other markets to sell their goods, but also may give preferential domestic treatment to America's competitors in China, principally Japan and the European Community. The Chinese government will most certainly look

**elsewhere to make major government purchases, such as grain.[10] Since our economic restrictions remain in place, these restrictions can be implemented to show our disapproval of their actions. In order to benefit the American consumers, we need to work on opening world markets-not close them. Therefore we encourage you to support President Bush's decision to continue granting MFN status to the People's Republic of China.**

## ENDNOTES

1. From basic data, Subsommittee on Trade, Committee on Ways and Means, 1 June 1990.

2. ibid.

3. Information gathered from general data, The Economist, 19 May 1990. p. 25.

4. ibid.

5. ibid.

6. Asian Studies Center, 8 May 1990. p.7.

7. Subcommittee on Trade, Committee on Ways and Means, 1 June 1990.

8. These sanctions included suspending the US Agency for International Development's $20 million Trade and Development Program (TDP). This type of sanction hurts the Chinese leadership more than the average Chinese citizen because TDP helps major Chinese government-sponsored projects. Moreover, American companies are not caught in the crossfire between the two governments. From Asian Studies Center, 8 May 1990. p. 6-7.

9. Paying higher prices for a large quantity of goods also leads to a rise in the rate of inflation.

10. The Economist, 19 May 1990. p. 25.

Chairman **Gibbons**. Mr. Lewis.

## STATEMENT OF HOWARD LEWIS III, VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. **Lewis**. Thank you, Mr. Chairman.

I appreciate being here. I have a statement for the record and since many of the points in that statement have already been made——

Chairman **Gibbons**. That is the problem with being this late in the afternoon.

Mr. **Lewis**. I would like to give a really abridged version of the already abridged version of the oral statement I was planning to give.

Chairman **Gibbons**. Your complete statement, as of course you know, will be in the record.

Mr. **Lewis**. That is fine.

First of all, NAM does favor the continuation of MFN to China. We, therefore, oppose all the bills mentioned in your press release of June 1. However, there are important differences in these bills and I thought maybe my contribution to today's hearings would be to briefly comment on each one of these bills from our perspective.

Chairman **Gibbons**. Please do so.

Mr. **Lewis**. House Joint Resolution 586 introduced by Representative Solomon and House Joint Resolution 578 introduced by Representative Frank are straightforward resolutions disapproving the President's recommendations to continue normal trade relations with China.

We obviously disagree with what these resolutions would do. On the other hand, if this issue is to be voted in Congress, NAM believes that a joint resolution of this type would be the best vehicle to do that.

We expect that the so-called mini-trade bill, H.R. 1594, will soon be enacted and that it will provide that these kinds of decisions should be made by joint resolution.

The United States is much more likely to develop and pursue constructive steadfast trade policies under the leadership of this committee through consistent use of this kind of mechanisms, than through a series of free-standing bills.

Further, these two resolutions are clean, that is, they do not attempt to make complicated judgments about China; they simply disapprove the President's action.

House Joint Resolution 581, introduced by Congressman Lantos, also has the virtue of being a joint resolution and so conforms to what we expect will be the statutorily recommended procedure.

However, unlike the resolutions introduced by Congressmen Solomon and Frank, the Lantos bill attempts to explain the withdrawal of MFN for China. It contains, for example, the finding that "renewal of most-favored-nation status would show U.S. support for the brutal, murderous regime in China." Normal, nondiscriminatory trade relations do not do any such thing, and we would be doing ourselves and the world a serious injustice to suggest they do.

H.R. 4866, by Mr. Solomon, is a freestanding bill to deny MFN to China. It does so without comment or qualification. We disagree with both the substance and the technique of this bill for the reasons given above.

H.R. 4939, offered by Mr. Pease, would not immediately deny MFN to China, rather, it would amend the Jackson-Vanik provisions of the 1974 Trade Act to ensure that in the future China is held to higher standards when these decisions are made.

It is not rash and we recognize it as an attempt to fashion a solution to an intractable problem. Nevertheless, we believe its enactment would be a mistake. It is not likely that the standards of this bill can or will be met. That being the case all of those affected will act as if they had received notice of withdrawal of the MFN. The economic harm would be only slightly less than that caused by the immediate cessation of normal trade.

Finally, H.R. 4931, by Mr. Kastenmeier, is also a bill to provide MFN under current conditions for a limited period, namely 6 months. We object to it for the same reasons we object to the Pease bill.

Finally, Mr. Chairman, by recommending that the Jackson-Vanik provisions of the 1974 act be amended with new conditions, these bills raise a generic question: should the United States expand the use of trade policy as a tool of foreign policy; a kind of diplomatic messenger, if you will?

America's manufacturers believe that the answer to this question is, no. Our economic problems, including the serious and persistent imbalance in the trade and current accounts, do not allow us the luxury of using economic tools in that manner.

Perhaps it is well that they do not. Through normal commercial relations we have a fair hope of influencing people in societies that we deal with day in and day out.

At the very least, we can improve our understanding of these societies. Both advantages are all but lost when normal commercial contacts are cut.

For all of these reasons, Mr. Chairman, we urge the Congress not to tear up this country's 10-year-old trade agreement with China and not to withdraw or further qualify MFN for China.

Thank you.

I will be happy to answer any questions you may have on behalf of my organization.

Chairman GIBBONS. Thank you.

[The statement of Mr. Lewis follows:]

# TESTIMONY

# OF

# HOWARD LEWIS III
VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS
NATIONAL ASSOCIATION OF MANUFACTURERS

# ON

# RENEWAL OF MFN FOR THE PEOPLES REPUBLIC OF CHINA

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAY AND MEANS
U.S. HOUSE OF REPRESENTATIVES

JUNE 19, 1990

Mr. Chairman, Members of the of Subcommittee, my name is Howard Lewis and I am vice president for international economic affairs at the National Association of Manufacturers. I would like to state at the outset, Mr. Chairman, that NAM and its members are grateful to you for holding these hearings on U.S. trade with China, and we very much appreciate this opportunity to state our views.

On May 24, President Bush notified the Congress of his intention to continue to extend normal, or most-favored nation (MFN), trade status to the Peoples Republic of China. Clearly, it is within the power of the Congress to insist upon a different course, and the bills we have been asked to comment on would, if enacted, do that. Some would effectively cut off MFN immediately. Others would impose stringent conditions for granting MFN in the future.

Mr. Chairman, the National Association of Manufacturers believes that the United States should continue to grant MFN to China and that MFN should not be made any more conditional than it now is. Already the President must make an annual decision on continuation of MFN for China and a handful of other countries. This in itself is a fairly rigorous conditionality.

Last June, the Chinese leadership made the infamous, brutal and tragic decision to move against, to murder, the pro-democracy students who were at that time demonstrating in Tiananmen Square. The bills offered by Representatives Frank, Kostmayer, Pease, Solomon, and Lantos are, at least in part, a reaction to that and subsequent events.

NAM and its members readily understand the motivation behind these proposals. Several of the individuals from our member companies, people we work with and talk to frequently, have served in China. Their emotional reactions are marked by the same anger, bitterness, and disappointment that inspires these bills, save that their reactions are infused with the intensity and complexity that comes from having lived and worked where the tragedy occurred.

Nevertheless, we view the effort to punish China with discriminatory tariffs as seriously mistaken. We believe it would harm American producers and American competitiveness. We believe it would harm some of our friends and allies abroad. We believe it would harm the very people in China whose success we wish to encourage, and we believe it would fail, almost completely, as a messenger from us to China's leaders. Yes, the point that America is outraged over the crackdown against democratic forces in China would be underscored, but it is unlikely that there would be any moderation of that policy as a result. To the contrary, we expect that stripping China of its MFN status in the United States would have the opposite effect. It would increase both Chinese isolationism and the hardships endured by those in China who believe in democracy.

**CHINA MFN AND U.S. COMPETITIVENESS**

These things needed to be said, but NAM's principal reason for asking to testify is our belief that the wrong decision in this matter would be a serious blow to American competitiveness.

We very much admire and appreciate the leadership this Committee showed in achieving the enactment of The Omnibus Trade and Competitiveness Act of 1988. A passage from that Act that is especially relevant here is this one from the Findings and Statement of Purpose:

> " ... it is essential, and should be the highest priority of the United States Government, to pursue a broad array of domestic and international policies --
> (A) to prevent future declines in the United States economy and standard of living,
> (B) to ensure future stability in external trade of the United States, and
> (C) to guarantee the continued vitality of the technological, industrial, and agricultural base of the United States..." (emphasis added)

In each case, continuation of non-discriminatory trade treatment for China would be supportive of these objectives; termination of that treatment would not.

**MFN AND THE COMMERCIAL RELATIONSHIP WITH CHINA**

The terms of the Jackson-Vanik amendment are such that the Administration is obliged to make a decision on MFN for China every year. Yet it is misleading to see those decisions as a series of discreet and independent events. MFN for China is better understood as the linchpin in a complex economic relationship.

In contemporary terms, that relationship began with President Nixon's trip to China in 1972; it was greatly strengthened with the Carter Administration's conclusion of the 1980 Trade Agreement with China; and it has been nourished by an array of subsequent commercial arrangements.

Last year, two-way trade between the United States and China amounted to over $18 billion and U.S. investment in China, in place and planned, exceeds $4 billion.

These numbers deserve some comment. The first point to be made is that the commitment by U.S. business that they express is impressive. China is a difficult country in which to do business. Things do not happen quickly there. In the words of the experts, it takes patience, persistence and perseverance. Notwithstanding whatever truth there may be to the charges that American business is short sighted and unwilling to work in foreign markets, an effort has been made in China.

We do not know what message the old men in the Imperial City will get if Congress decides to withdraw MFN. We have a better idea of how business decision-makers in this country will react. They will conclude that China is just too risky. They may also conclude that other countries in transition are also too risky, from Poland to the Soviet Union to certain Latin American countries.

In the age of the global economy, that would be a tragic message for Congress to send to American business. Our exports are coming back. The trade deficit, at long last, is moderating. That trend will not last if foreign markets are turned over to competitors so that we can send a message to foreign leaders.

The second point about the numbers has to do with the fact that, in narrow bilateral terms, they are not in our favor. We have a $6 billion trade deficit with China. Even so, taking MFN away from China would only make the U.S. trade deficit worse. Almost certainly other countries would fill the import gap, but no one is going to offer the United States a new $6 billion export market. From wheat to airplanes, U.S. exports will fall if Congress takes normal trade privileges away from China. This is one of the few instances in which retaliation against a U.S. trade action is virtually certain.

## BEYOND THE U.S. BUSINESS RISK

Others will cover this ground more effectively than can we. Still, it is worth noting that American businesses are not the only ones who stand to lose if the United States tears up its trade agreement with China. Roughly 70 percent of China's exports to the United States come through Hong Kong. Indeed, many are produced in Hong Kong-owned enterprises in South China.

Hong Kong already labors under a dark cloud. Bills to take MFN away from China are aimed at Beijing; they will hit Hong Kong and the entrepreneurs in South China. Even some of those abroad who might stand to gain new business in this country are worried about the consequences of such a serious step.

President Bush said in his press conference on May 24 that, in addition to the United Kingdom, South Korea, Japan, Thailand, Singapore, and Taiwan have all requested that the United States continue to extend non-discriminatory trade treatment to China. An often repeated lesson of American culture, from John Wayne to Kojak, is this: When the bad guys are holding hostages, the good guys hold their fire. One could easily stretch the analogy too far, but we are convinced that American interests and those of our allies would be better served by a restrained and level headed approach to China. We should hold our fire.

## LEGISLATION

As these remarks suggest, NAM is opposed to all of the bills mentioned in the Chairman's press release of June 1. There are, however, important differences among them, and a comment on each is in order.

H.J. RES. 586 by Rep. Solomon and H.J. RES. 578 by Rep. Frank are straightforward resolutions disapproving the President's recommendation to continue normal trade relations with China. We disagree with what these resolutions would do. On the other hand, if this issue is to be voted upon in the Congress, NAM believes that a joint resolution of this type would be the best vehicle.

We expect that the so-called mini trade bill, H.R. 1594, will be enacted soon and that it will provide that these kinds of decisions should be made by joint resolution. The United States is much more likely to develop and pursue constructive, steadfast trade policies through the consistent use of this kind of mechanism than through a series of free-standing bills.

Further, these two resolutions are clean. That is they do not attempt to make complicated judgments about China. They simply disapprove the President's action.

H.R. Res. 581 by Mr. Lantos also has the virtue of being a joint resolution and so conforms in form to what we expect will be the statutorily recommended procedure.

Unlike the Solomon and Frank joint resolutions, however, it attempts to explain the withdrawal of MFN for China. It contains, for example, the finding that "renewal of most-favored nation status would show United States support for a brutal, murderous regime" in China.

Normal, non-discriminatory trading relations do no such thing, and we would be doing ourselves and the world a serious injustice to suggest that they do.

H.R. 4866 by Mr. Solomon is a free-standing bill to deny MFN to China. It does so without comment or qualification. We disagree with both the substance and the technique of this bill for the reasons given above.

H.R. 4939, offered by Mr. Pease, would not immediately deny MFN to China. Rather it would amend the Jackson-Vanik provisions of the 1974 Trade Act to ensure that, in the future, China is held to a higher standard when these decisions are made. It is not rash, and we recognize it as an attempt to fashion a solution to an intractable problem. Nevertheless, we believe its enactment would be a mistake.

H.R. 4939 and similar legislation underscore the general dilemma of using trade policy as a messenger. In the case of China, one must decide at the outset whether the standards to be inserted into the Jackson-Vanik Amendment (Section 402(d) of the 1974 Trade Act) are to be vague and unenforceable or whether they should be serious, meaningful standards. Tests of the first type might achieve the goal of political statement without causing serious economic harm. The latter course, chosen by Mr. Pease, is perhaps more honest but it only puts things off for a year.

It is not likely that the standards of this bill can or will be met. That being the case, all of those affected will act as if they had received notice of the withdrawal of MFN. The economic harm would be only slightly less than that caused by immediate cessation of normal trade.

H.R. 4931 by Mr. Kostmayer is also a bill to provide MFN under current conditions for a limited period, namely six months. We object to it for the same reasons that we object to the Pease bill.

## AMENDING JACKSON-VANIK

Finally, Mr. Chairman, by recommending that the Jackson-Vanik provisions of the 1974 Act be amended with new conditions, these bills raise a generic question: Should the United States expand the use of trade policy as a tool of foreign policy -- a kind of diplomatic messenger? America's manufacturers believe that the answer to that question is no.

Our economic problems, including the serious and persistent imbalance in the trade and current accounts, do not allow us the luxury of using economic tools in that manner. Perhaps it is as well that they do not. Through normal commercial relations, we have a fair hope of influencing people and societies that we deal with day in and day out. At the very least, we can improve our understanding of those societies. Both advantages are all but lost when normal commercial contacts are cut.

For all of these reasons, Mr. Chairman, we urge the Congress not to tear up this country's ten-year-old trade agreement with China -- not to withdraw or further qualify MFN for China. Thank you.

Chairman **Gibbons**. I want to thank all of you for coming and adding to the sum total of our knowledge. I want to say that I appreciate your being so patient and waiting here until the end of the day to be heard.

Oftentimes witnesses, because they are first and lucky on the draw, get the larger audiences, but the quality and the quantity of what you had to say is appreciated and we will try to use it to solve this problem.

I think all of us are concerned that human rights in China are not what we would like them to be. I guess though if we look at Chinese history over a long period of time, their human rights standards never have been up to what we say our standard is.

The Chinese do approach life a little differently, and their years of being dedicated to socialism and communism have seriously impacted their ability to compete in an open market and an open world. The history of their leaders leaves a lot to be desired. They have been isolated for so many years.

I say all of that without condoning in any way the loss of life and the repression of people there. I think, as many witnesses have said today, we have got to evaluate what we do by how effective it will be in reaching a broader goal—and that is to have a freer and more open China and a freer and more open market in the world.

That is a matter on which we must continue these hearings and see what we can find out and then ultimately, vote.

This concludes the first day of these hearings. We will resume again on Thursday, the 21st, in this room at 9:30 a.m.

Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Very briefly, our decision will not be made on the basis of Tiananmen Square, unless Tiananmen Square has to do with emigration policy. I do not know that it does directly.

Our decision is not made on the basis of human rights or industrial policy but it is made on the basis of emigration. I wonder if any of you have anything to add or if you see any freer emigration policies in China now than there has been in the past or have any words of encouragement for us that you see free and open emigration in the near future?

Mr. **Nelsen**. Mr. Schulze, immigration has been changed dramatically in the immigration bill that was up for this session.

Mr. **Schulze**. I can hardly hear you, Mr. Nelsen.

Mr. **Nelsen**. The whole question of immigration has changed drastically with the new immigration bill that was in this session.

Immigration should be encouraged since we are close to maximum employment. In order for us to be able to export more to balance our foreign trade, we need more qualified people.

Immigration is good for the U.S. economy, both domestically and to be competitive in the world market. There is some reason why the Chinese are seeking out Canada as the place to emigrate to. We feel that——

Mr. **Schulze**. A lot of Hong Kong residents are going to Canada because there are tremendous incentives for them to go to Canada. Perhaps we should emulate some of those.

Mr. **Nelsen**. They are taking over Vancouver, British Columbia, I see.

But immigration should be opened up especially in light of the Jackson-Vanik amendment which forced countries to allow free emigration. The individual's right to live and work and produce wherever he wants to is something that is being focused on more.

The Europeans are including that in the Common Market policy and we are behind really on that.

Mr. **Schulze**. I am somewhat confused. You mean that we should have a more open-door policy for immigration?

Mr. **Nelsen**. Yes.

Mr. **Schulze**. Why?

Mr. **Nelsen**. To encourage emigration while keeping our immigration policies restrictive is hypocritical and senseless. If we mean to uphold Jackson-Vanik, let us at least open up our borders to allow emigres from these nations to enter freely.

Mr. **Schulze**. Yes, well, our narrow confines under Jackson-Vanik is that we have to approve MFN based on the emigration policies of the nation involved.

Mr. **Nelsen**. Yes, I understand.

Mr. **Schulze**. Not necessarily our policies. If China's policies paralleled ours, we would probably not be sitting here today. No matter what they did, we would not, under Jackson-Vanik, have any cause to question the continuation of MFN. But their policies do not begin to parallel ours, as far as immigration goes.

Mr. **Nelsen**. That is true. The whole Jackson-Vanik issue should be reviewed since we now have limits on immigration from certain countries. The Jackson-Vanik law demands free emigration out of a country—but most countries, including the United States, no not permit free immigration into their countries.

Mr. **Schulze**. I know that Mr. Vanik has backed off somewhat. I talked to Senator Jackson before he died and he felt that it was an extremely important policy and one that should be continued, although from time to time, there have been discussions on the elimination or the softening of Jackson-Vanik.

Perhaps, with what is happening in Eastern Europe and the rest of the world, Jackson-Vanik will outlive its usefulness and I hope and pray that day will come.

But I do not know that it is here yet.

In the interest of time, I just want to ask Mr. Cooke one question.

I wonder if you would give me an example—and I realize you sell a lot of low-priced items—but tell me how this increase will be so disastrous? If you could walk me through one example, I would appreciate it.

Mr. **Cooke**. Well, as an example, I said that the duties on stuffed animals would go from zero to 70 percent and I do not know if you were sitting there when I said, an item——

Mr. **Schulze**. How much does a stuffed animal cost to produce in China?

Mr. **Cooke**. It varies based on the size of the animal. We could have an item—let us start with an item that is——

Mr. **Schulze**. That is why I want you to walk me through it step-by-step.

Mr. **Cooke**. If an item costs $2——

Mr. **Schulze**. If an item costs $2.

Mr. COOKE. Let us say that you take an item for $2 in China?

Mr. SCHULZE. OK, that would be an average-sized bear?

Mr. COOKE. It would be relatively——

Mr. SCHULZE. That would be 12 inches?

Mr. COOKE. It would be about this big. If——

Mr. SCHULZE. I have bought bears in Korea for very reasonable prices which I presume are more expensive than those made in China. You are sure you are not overpaying?

Mr. COOKE. No. I think we are looking at the fact that we make a very quality product and therefore, we probably pay a bit more.

Mr. SCHULZE. OK.

Mr. COOKE. But take the example of a 6-inch teddy bear that we would pay roughly a $1.50 to $2 for in China. Without the duty and by the time that we get it to the United States, it will cost us, let us say, $3 because of freight and so forth.

We would then sell that in the marketplace for roughly $9.50. If you add on the duties, the 70-percent duties, then you are talking about a product that will then probably sell for somewhere around $14 to $15 because——

Mr. SCHULZE. No, no, no, the duty is on the $2.

Mr. COOKE. But we would keep marking it up and——

Mr. SCHULZE. Well, so you get more profit. You should be joyous that we are going to do this, because think of all the additional profit.

Mr. COOKE. But that is the structure of the retail market in the United States.

Mr. SCHULZE. I understand. I was a retailer for 25 years, Mr. Cooke.

Mr. COOKE. And therefore you add on as the price and the retailer, in general, doubles the price of the product. You would not expect that to change.

Mr. SCHULZE. Well, in competitive areas, that price is sometimes reduced. The markup in your area is extremely high, probably as high as any retail merchandise in the country.

You know, I would be happy if you do not have time right now to sit down and tell me—and I realize that you said this is going to put people out of business—and I guess what I am saying to you is that I do not believe that, Mr. Cooke.

I do not believe that it will cost one job, one iota, one product would not cross our borders because this would happen. So, what I want you to do is that I want to give you the opportunity to convince me that my position is wrong.

Mr. COOKE. I would be glad to.

Mr. SCHULZE. If you would sit down and do that step-by-step then I would be happy to receive that information.

Mr. COOKE. I would be glad to do that.

Mr. SCHULZE. OK.

Mr. CLEVENGER. Congressman, may I give you an example of a different order?

Mr. SCHULZE. Certainly.

Mr. CLEVENGER. In the case of a machine tool——

Mr. SCHULZE. How many machine tools do we import from China?

Mr. CLEVENGER. Very few.

Mr. **Schulze**. See what we are talking about imports, duties, import duties from products coming from China.

Mr. **Clevenger**. OK, in the case of exporting, however, China is a decade-old developed market for us now. We deal at a plant level. However bureaucratic and Government controlled it is, we are still dealing with somebody who is becoming westernized in having to produce so many automobiles or widgets or whatever they manufacture.

Mr. **Schulze**. My dealings with them over the years, if they want something, they are going to buy it. If we have what they need they are going to buy it. It does not make any difference if it is red, yellow, blue, expensive, inexpensive. If there is a need and you have the product to fill that need, they are going to buy it.

Mr. **Clevenger**. That is true, sir, but the competition worldwide for machine tools, I expressed in my comments that imports in the United States are 50 percent. The United States does not hold a manufacturing ability or market like it used to hold a couple of decades ago.

So that when we sit and negotiate with the Chinese, we are negotiating against Japan; we are negotiating against Western Europe, and in some cases, even Eastern Europe.

So when the decisiontime comes to be made, and they have to consider the longevity of that machine tool operating for 10, 15, 20 years, the ability to get spare parts and service personnel as a plant manager charged with producing widgets, you will not take that risk of buying from the United States if there is a possible interruption in the future.

Mr. **Schulze**. Mr. Clevenger, let me assure you, if your price is the lowest, your quality is the best and your service and parts distribution are what they need, they are going to buy your product.

Mr. **Clevenger**. Sir, I would like to have one of those private meetings also.

Mr. **Schulze**. All right, OK.

Thank you.

Chairman **Gibbons**. This concludes our hearing for today.

Thank you, very much.

[Whereupon, at 3:47 p.m., the subcommittee adjourned, to reconvened at 9:30 a.m., Thursday, June 21, 1990.]

# UNITED STATES-PEOPLE'S REPUBLIC OF CHINA (PRC) TRADE RELATIONS, INCLUDING MOST-FAVORED-NATION TRADE STATUS FOR THE PRC

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THURSDAY, JUNE 21, 1990

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
*Washington, D.C.*

The subcommittee met, pursuant to call, at 9:30 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning ladies and gentlemen, we are happy to open this hearing today on China. We have as our leadoff witness this morning our very distinguished officer from the State Department, who has for many years participated in foreign policy matters for this country, Deputy Secretary Larry Eagleburger—Lawrence Eagleburger. I am sorry, I called him Larry so long. We are glad to have you with us this morning. We need your help and guidance. You may proceed as you wish.

## STATEMENT OF HON. LAWRENCE S. EAGLEBURGER, DEPUTY SECRETARY, U.S. DEPARTMENT OF STATE

Mr. Eagleburger. Thank you, Mr. Chairman. I have a brief oral statement I would like to read.

Chairman Gibbons. Without objection you entire statement, written and oral, will appear in the record and that of all other witnesses, without objection.

Mr. Schulze. Mr. Chairman, let me briefly thank you for continuing these hearings and state how much I appreciate the fact that you handled them in a very diplomatic manner, and look forward to the enlightening testimony we are going to have today.

Mr. Eagleburger. It remains to be seen whether it is enlightening. Last month the President decided to renew China's most-favored-nation, MFN, trade status for another year by invoking the waiver procedure under the Jackson-Vanik amendment. We are well aware that some Members of Congress object to this decision, believing that we should deny MFN to China as an expression of our concern over the continuing repression over there. Indeed, for many, the debate over extending China's MFN status for another year does not really depend on China's emigration practice—which is the legal prerequisite for waiver under the Jackson-Vanik amendment—but is seen instead as a gauge of our overall China policy.

Of course, as this committee well knows, granting MFN does not confer preferential treatment. MFN status merely means that normal, nondiscriminatory tariff rates—currently applied to all but a handful of our trading partners—will be in effect. Many countries with which we have profound differences—such as Syria, which is on our terrorist list, or South Africa, against which we impose broad sanctions—have retained MFN status.

Nonetheless, in recent years—and certainly in the case of China—the discussion of an MFN waiver has also been viewed as a symbol of our overall policy, particularly in the area of human rights. I would therefore like to explain today the thinking behind the administration's decision on MFN for China. We believe, both on the basis of China's emigration practice as well as on the basis on our own objectives of bolstering political and economic reform and advancing the cause of human rights, that it was appropriate to renew China's MFN waiver.

Looking first at the Jackson-Vanik amendment itself, that law requires the President to determine whether renewal of the MFN waiver would substantially promote freedom of emigration. We believe that an extension of the waiver would advance this objective.

Despite the military crackdown at Tiananmen Square last year, the Chinese Government has continued to permit its nationals to emigrate to the United States. In fact, in fiscal year 1989, the number of U.S. immigrant visas issued in China actually increased by 9.5 percent to approximately 17,000. It has actually been U.S. numerical ceilings, and not Chinese restrictions, that has limited the number of Chinese who have emigrated to the United States.

In our judgment, continuation of MFN status will help to preserve the gains already achieved on freedom of emigration and encourage further progress in the future. Denying MFN status to China would serve only to remove an important incentive for permitting emigration and, in the end, reduce the very contacts that have helped foster political reform in China.

Since the crackdown in Tiananmen Square last year, the administration has maintained a consistent approach toward China. We have sent a firm message that Beijing's human rights performance has been—and remains—unacceptable, while seeking at the same time to sustain those elements of our relationship which serve U.S. interests and benefit the Chinese people.

But let there be no misunderstanding about our position on human rights: we view the situation in China as deeply disturbing. There is no disagreement among the administration, the Congress, and the business community that the political repression there requires a strong and unequivocal response. We have provided such a response since the time of the massacre at Tiananmen Square right through today. The sanctions that the administration imposed last June remain largely in effect today, with only a few minor modifications. I have fully described the status of those sanctions in the statement I have submitted for the record.

At the same time that we have imposed the sanctions, however, we have also sought to preserve certain core elements of the United States-People's Republic of China relationship—established with much effort by five administrations over the past two decades—because this is the only way we can stay engaged in support of reform and openness in China. The issue for us has never been whether or how fervently we support reform and respect for human rights in China. Of course we support those objectives, and with as much fervor as our critics. The issue, instead, has always been how best to transform rhetoric into reality.

In the end, the President concluded that denial of MFN would inflict harm on those in China—whether it be students, intellectuals, workers, managers, or Government officials—who continue to struggle to keep alive the openness to the outside world and the prospect of further reform. Trade has represented much more than just a series of financial transactions between our two countries. During the past decade, commerce has served as a vital force for change in China. It has been a primary channel for contact between Americans and Chinese, and for the sharing of the ideas and values that have contributed to the progressive developments within China. It is these very forces of reform that generated the pressures which exploded in Tiananmen Square last June, and which continue to build even today.

The withdrawal of MFN would hurt those segments of the Chinese economy that are the most dynamic, the most Western-oriented, and the most committed to the marketplace. It would severely damage the economic base of those forces generating pressure for further reform. Accordingly, we must seek to preserve the linkages that we have painstakingly forged with the Chinese over the past 20 years, including our strong economic and commercial relations.

Nonetheless, as the President has stated, we are disappointed that the steps China has taken have not gone far enough to address our concerns, much less to heal the self-inflicted wounds of last June. Under current circumstances, the sanctions initiated by the President will remain in place. But to withdraw MFN at this juncture would only push China further into isolation, reduce our influence on a wide range of regional and global issues, and promote an atmosphere of confrontation likely to engender additional political repression.

We also must not forget that the issue on MFN itself is fundamentally a trade issue. Bilateral trade with China totaled almost $18 billion last year, making China our 10th largest trading partner worldwide. Denying MFN status to China would have damaging economic consequences for U.S. exporters, U.S. investors, and U.S. consumers. This impact merits careful consideration, and is described more fully in my written statement.

In essence, MFN trade status provides the fundamental underpinning of our commercial relationship with China. We should not act to undermine that relationship. Once weakened, it would be a long and difficult process to rebuild.

In conclusion, our policy toward China seeks to promote political and economic reform and the advancement of human rights through a considered mix of engagement and sanction. The President has decided in favor of extending China's MFN status because it serves clear U.S. interests and benefits the people of China.

However, this extension of MFN does not in any way imply acquiescence to political repression or human rights violations. The sanctions initiated by the President in June 1989 remain essentially in place. These measures clearly define our relationship with the current regime in Beijing as less than normal.

We hope that the Chinese leadership will soon build on the steps it has taken to relieve repression and address other U.S. concerns. But we should not let our frustration over the slow pace of Beijing's response lead us to escalate economic sanctions and thus further harm millions in China who look to us to help keep their country open and to help keep alive the promise of reform. The real losers of a denial of MFN would be China's economic reformers and its workers in export industries, those Chinese hoping to emigrate, and American businessmen and consumers. There would be, in our view, no real winners. We now must look forward, not backward, in our relationship with the People's Republic of China, and seek to build on the constructive ties we have already developed with the Chinese.

Thank you, Mr. Chairman.

[The statement of Lawrence Eagleburger follows:]

# STATEMENT OF
THE HONORABLE LAWRENCE S. EAGLEBURGER
DEPUTY SECRETARY OF STATE
BEFORE THE
SUBCOMMITTEE ON TRADE OF THE
HOUSE WAYS AND MEANS COMMITTEE
June 21, 1990

Mr. Chairman and Members of the Committee:

Last month the President decided to renew China's most-favored-nation (MFN) trade status for another year by invoking the waiver procedure under the Jackson-Vanik Amendment. We are well aware that some members of Congress object to this decision, believing that we should deny MFN to China as an expression of our concern over the continuing political repression there. Indeed, for many, the debate over extending China's MFN status for another year does not really depend on China's emigration practice -- which is the legal prerequisite for waiver under the Jackson-Vanik Amendment -- but is seen instead as a gauge of our overall China policy.

Of course, as this Committee well knows, granting MFN does not confer preferential treatment. MFN status merely means that normal, non-discriminatory tariff rates -- currently applied to all but a handful of our trading partners -- will be in effect. Many countries with which we have profound differences -- such as Syria, which is on our terrorist list, or South Africa, against which we impose broad sanctions -- have retained MFN status.

Nonetheless, in recent years -- and certainly in the case of China -- the discussion on an MFN waiver has also been viewed as a symbol of our overall policy, particularly in the area of human rights. I would therefore like to explain today the thinking behind the Administration's decision on MFN for China. We believe, both on the basis of China's emigration practice as well as on the basis of our own objectives of bolstering political and economic reform and advancing the cause of human rights, that it was appropriate to renew China's MFN waiver.

## I. THE DETERMINATION UNDER JACKSON-VANIK

Looking first at the Jackson-Vanik Amendment itself, that law requires the President to determine whether renewal of the MFN waiver would substantially promote freedom of emigration. We believe that an extension of the waiver would advance this objective.

Despite the military crackdown at Tiananmen Square last year, the Chinese Government has continued to permit its nationals to emigrate to the United States. In fact, in fiscal year 1989, the number of U.S. immigrant visas issued in China actually increased by 9.5 percent to approximately 17,000. In the first five months of fiscal year 1990, this immigration pattern has continued, with U.S. officials issuing almost 8,000 immigrant visas -- about the same number as were issued during this period one year earlier. Moreover, non-immigrant visa applications have also held steady over the past year, despite some new travel restrictions on Chinese graduate students. In short, it has been U.S. numerical ceilings, and not Chinese restrictions, that has limited the number of Chinese who have emigrated to the United States.

In our judgment, continuation of MFN status will help to preserve the gains already achieved on freedom of emigration and encourage further progress in the future. Thousands of Chinese families are being reunited in the United States through emigration. The contacts which these immigrants maintain with friends and relatives in China help to encourage positive change there and promote friendly relations with the United States. Denying MFN status to China would serve only to remove an important incentive for permitting emigration and, in the end, reduce the very contacts that have helped foster political reform in China.

## II. BROADER HUMAN RIGHTS CONCERNS

Since the crackdown at Tiananmen Square last year, the Administration has maintained a consistent approach toward China. We have sent a firm message that Beijing's human rights performance has been -- and remains -- unacceptable, while seeking at the same time to sustain those elements of our relationship which serve U.S. interests and benefit the Chinese people. We have sought to express our revulsion at the violence and repression, without gratuitously imposing additional hardships on the Chinese people. Indeed, we have tried to be mindful of the fact that large numbers of Chinese officials -- both civilian and military -- have opposed the political repression there.

Central to our policy is the recognition that the United States must associate itself -- always and unambiguously -- with those who seek a society where people enjoy universally recognized basic human rights. President Bush made this point in May, on Human Rights Day, when he called on the American people to "observe this day in the spirit of commemorating those who died (at Tiananmen); drawing inspiration from the courage of those who held fast to their ideals in the face of violent suppression; and urging the Chinese government to respond positively to the fundamental aspirations for freedom expressed in last year's demonstrations." As the President added on the June 4 anniversary of Tiananmen, "America will always stand with those who seek greater freedom and democracy."

Let there be no misunderstanding about the Administration's position on human rights: We view the situation in China as deeply disturbing. Despite the release of several hundred political prisoners, many others remain in detention, apparently because of their advocacy of certain political viewpoints or their participation in last year's peaceful demonstrations. The Chinese press, which reported the events of last spring with remarkable freedom and objectivity, has again been shackled. Mandarin language broadcasts of the Voice of America are still jammed. Public expressions of dissent are not tolerated. Western reporters have been harassed, and just recently several were beaten by PRC security forces -- behavior which we have protested to Chinese authorities. We are also concerned about reports of official harassment and intimidation of China's students here.

There is no disagreement among the Administration, the Congress, and the business community that this sort of political repression requires a strong and unequivocal response. We have provided such a response since the time of the massacre at Tiananmen Square right through today.

On June 5 of last year -- a day after Tiananmen -- the President ordered a suspension of all visits between military leaders of the two countries, and of government sales and commercial exports of weaponry. In addition, the President announced that he would review sympathetically all requests by Chinese students in the United States to extend their stays. The President also offered humanitarian and medical assistance through the Red Cross to the Chinese people.

On June 20, the President followed these measures with additional sanctions. He ordered the suspension of high-level exchanges of government officials, which promptly led to the cancellation of scheduled trips to Beijing by Commerce Secretary Mosbacher and Treasury Secretary Brady. The Administration also sought successfully to postpone consideration of all new loans to China by international financial institutions.

Because there seems to be some confusion about the status of these sanctions -- indeed, some have the misimpression that we have lifted them -- let me review the current situation:

- Prior to Tiananmen, there were regular and frequent high-level exchanges of top-level U.S. and Chinese officials. These exchanges are no longer occurring. With the special exception of the two Scowcroft-Eagleburger missions, senior-level bilateral meetings have been halted.

- We have also halted arms deliveries, including those under FMS programs. Discussion of future programs is on hold.
- We have suspended licenses on munitions cases. And a major initiative to relax COCOM controls on high technology exports to China remains on hold.
- Until Tiananmen, China was a major recipient of World Bank and Asian Development Bank loans. Between June 1989 and January 1990, all loans from both institutions were completely frozen. Since then, these institutions have approved only a small number of basic-human-needs projects. The U.S. Government has been holding the line on World Bank loans to China pending further improvements in the situation there.
- OPIC has provided no insurance for investors in China since the events at Tiananmen.

At the same time that we have imposed these sanctions, we have also sought to preserve certain core elements of the U.S.-PRC relationship -- established with much effort by five administrations over the past two decades -- because this is the only way we can stay engaged in support of reform and openness in China. The issue for us has never been whether or how fervently we support reform and respect for human rights in China. Of course we support those objectives, and with as much fervor as our critics. The issue, instead, has always been how best to transform rhetoric into reality.

Our critics, including some of the Chinese students in this country, argue that the United States should escalate sanctions to the maximum extent possible, and use MFN as a weapon to devastate the Chinese economy and deepen China's international isolation. These voices tend to believe that the plight of the Chinese must be made worse before they will rise up to rectify the situation. We find this logic flawed. Such an approach, in our view, would _not_ improve the human rights situation or encourage a return to economic and political reform. Rather, it would strengthen conservative, isolationist elements within the Chinese leadership and eliminate what influence the United States may have on the situation.

In the end, the President concluded that denial of MFN would inflict harm on those in China -- whether it be students, intellectuals, workers, managers, or government officials -- who continue to struggle to keep alive the openness to the outside world and the prospect of further reform. Trade has represented much more than just a series of financial transactions between our two countries. During the past decade, commerce has served as a vital force for change in China. It has been a primary channel for contact between Americans and Chinese, and for the sharing of the ideas and values that have contributed to the progressive developments within China. We have seen it in the new generation of entrepreneurs, managers, technicians, and consumers, all with expectations that could not be contained within China's authoritarian political institutions. It is these very forces of reform that generated the pressures which exploded in Tiananmen Square last June, and which continue to build even today.

The withdrawal of MFN would hurt those segments of the Chinese economy that are the most dynamic, the most Western-oriented, and the most committed to the market place. It would severely damage the economic base of those forces generating pressure for further reform. Accordingly, we must seek to preserve the linkages that we have painstakingly forged with the Chinese over the past twenty years. We need to keep faith with the people and the institutions of China that can move the society forward. Our efforts to maintain strong economic and commercial relations are among the policy instruments at our disposal for keeping that faith.

Our G-7 allies -- Canada, the United Kingdom, France, Germany, Italy, and Japan -- have adopted a similar approach. Through periodic consultations, we have been able to maintain a common Western position since June 1989 on such key issues as the suspension of arms exports to China, the restriction on lending by the World Bank and the Asian Development Bank, and the limitation on senior-level governmental exchanges. This Western solidarity has sent a powerful message to the Chinese leadership that normal relations with the international community are not possible when a government resorts to the violent repression of its people.

China's leaders, while preoccupied with maintaining stability and their grip on power, have nonetheless signaled a desire to sustain the U.S.-PRC relationship. This is evident in the positive, if modest, steps China has taken in recent months: lifting martial law in Beijing and Lhasa; releasing first 573 dissidents and then recently another 308 detainees; permitting our diplomats once again to have access to Tibet; accrediting a VOA correspondent; pledging not to sell medium-range missiles in the Middle East; restoring the Fulbright exchanges; and inviting in the Peace Corps.

Nonetheless, as the President has stated, we are disappointed that the steps China has taken have not gone far enough to address our concerns, much less to heal the self-inflicted wounds of last June. Under current circumstances, the sanctions initiated by the President will remain in place. But to withdraw MFN at this juncture would reduce PRC incentives for reform and restraint in the area of human rights. It would only push China further into isolation, reduce our influence on a wide range of regional and global issues, and promote an atmosphere of confrontation likely to engender additional political repression.

## III. TRADE BETWEEN THE UNITED STATES AND CHINA

We also must not forget that the issue of MFN itself is fundamentally a trade issue. Denying MFN status to China would have damaging economic consequences for U.S. exporters, U.S. investors, and U.S. consumers. This impact also merits careful consideration.

In the ten years since the United States granted MFN status to China, bilateral trade has increased almost 700 percent, from $2.3 billion in 1979 to $17.8 billion last year. China is now our tenth largest trading partner worldwide and our fourth largest in Asia -- after Japan, Taiwan, and South Korea. U.S. exports to China totaled $5.8 billion in 1989, with leading exports including wheat ($1.1 billion), aircraft and aerospace equipment ($652 million), fertilizer ($487 million), cotton ($259 million), wood products ($175 million), and computers ($126 million). China's program of economic modernization makes it a growing and important market for a wide range of U.S. industrial products and agricultural commodities.

U.S. companies are also investing in joint ventures in China. Over 1,000 American companies have decided to invest more than $4 billion in joint U.S.-Chinese projects or wholly owned ventures. After Hong Kong and Macau, the United States is the largest source of direct private investment in China.

China's exports to the United States have also expanded rapidly in recent years and, in 1989, reached $12 billion, a 29 percent increase over 1988. Ten years ago Chinese exports were concentrated in a relatively small number of categories, of which oil was the principal revenue earner. Today, Chinese exports are composed mainly of manufactured consumer goods, such as textiles and apparel, shoes, toys, suitcases, and electronic products. The increase in Chinese consumer exports reflects, in large measure, the shift of Hong Kong-owned manufacturing industries across the border to south China, where labor costs are lower and Chinese enterprises are market-oriented. Indeed, Chinese export growth in some areas has been so fast that China is now an important supplier for the entire U.S. market. For example, Chinese manufacturers currently supply one-third of all imported toys, 10 percent of all footwear, and close to 14 percent of all imported apparel.

Denying MFN status to China would sharply increase tariffs on Chinese imports, leading to significantly higher prices for U.S. consumers. Non-MFN duty rates are as much as ten times higher than the MFN rates. Tariffs on certain toy products, for example, would rise from 6.8 percent to 60 percent. Tariffs on some women's apparel would increase from a range of 6 to 17.7 percent to a range of 60 to 90 percent. The average duty on China's top 25 exports to the United States in 1989 was 8.8 percent. If those same products were imported under non-MFN rates, the average duty would have been 50 percent.

Moreover, trade retaliation would have been almost a certainty had we denied MFN status to China. China, like us, has a separate non-MFN tariff structure, with rates approximately 30 to 50 percent higher than the MFN rates for our principal exports. We would have expected China to have acted immediately to withdraw MFN treatment for U.S. products, putting our exporters at a disadvantage in competing for sales with other foreign firms. Indeed, U.S. firms that have worked hard over the last ten years to develop business ties and a market share in China would have been in jeopardy of losing that business -- perhaps permanently -- to other suppliers, primarily from Europe and Japan. Because no other Western country contemplated denying MFN status to China, our withdrawal of MFN would have done long-term damage to U.S. economic interests and to one of our key means for influencing the direction of reform in China.

In a wide range of industrial goods in which the United States has a technological advantage, such as computers, mining equipment, and electrical machinery, the competition with European and Japanese firms is already intense. Any trade barriers which put U.S. firms at a disadvantage, whether it be higher tariffs or administrative discrimination, could have a serious impact on their ability to sell in China and retain their market share.

In addition to U.S. exporters, companies that have invested in Chinese ventures would also have faced serious difficulties from the withdrawal of MFN. Joint ventures that export part of their production to the United States would either have lost sales or faced lower profits because of higher non-MFN duties.

Moreover, the relationship of U.S. joint ventures in China with the Chinese bureaucracy would likely have been affected adversely, so that acquiring electricity, scarce raw materials, and import licenses for needed production inputs could have become increasingly difficult.

In short, MFN trade status provides the fundamental underpinning of our commercial relationship with China. We should not act to undermine that relationship. Once weakened, it would be a long and difficult process to rebuild.

## IV. THE EFFECT ON HONG KONG

Beyond the devastating impact that denying MFN to China would have on our commercial relations with the PRC, there would also be a severely negative impact on Hong Kong, where the United States also has important economic and political interests.

Hong Kong continues to be a major entrepot for Chinese exports. Of the $25 billion in Chinese exports to Hong Kong in 1989, $24 billion were re-exported to other countries. This represents 48 percent of all Chinese exports. The United States is by far the largest market for Hong Kong's re-export of Chinese products, taking $8.5 billion in 1989.

In recent years, Hong Kong's economic ties with China have extended beyond trade to include the integration of entire manufacturing industries in south China. Hong Kong companies have invested in more than 2,500 enterprises in south China. An additional 10,000 to 15,000 enterprises in south China do processing and assembly work for Hong Kong companies. The employment of two million workers in south China's Guangdong Province is related directly or indirectly to Hong Kong trade and investment. Denial of MFN to China would have caused catastrophic losses to those Hong Kong enterprises, including many of which are American-owned and produce U.S.-bound exports. The Hong Kong government has estimated that approximately 20,000 Hong Kong manufacturing jobs would have been lost if MFN had been denied.

Hong Kong is also one of our larger trading partners in Asia, with bilateral trade totaling $16 billion. The United States has invested approximately $5 to $6 billion in Hong Kong and over 900 U.S. firms have established a presence in the territory. The profitability of these firms depends both on the health of the Hong Kong economy and on U.S.-China trade. The American Chamber of Commerce in Hong Kong reported that 70 percent of its member companies would have suffered from the loss of MFN to China and perhaps as many as half of the companies would have had to reduce staff or otherwise cut operations.

## V. CONCLUSION

In sum, our policy toward China seeks to promote political and economic reform and the advancement of human rights through a considered mix of engagement and sanction. The President has decided in favor of extending China's MFN status because it serves clear U.S. interests and benefits the people of China.

However, this extension of MFN does not in any way imply acquiescence to political repression or human rights violations. The sanctions initiated by the President in June 1989 remain essentially in place. These measures clearly define our relationship with the current regime in Beijing as less than normal.

We hope that the Chinese leadership will soon build on the steps it has taken to relieve repression and address other U.S. concerns. But we should not let our frustration over the slow pace of Beijing's response lead us to escalate economic sanctions and thus further harm millions in China who look to us to help keep their country open and to help keep alive the promise of reform. The real losers of a denial of MFN would be China's economic reformers and its workers in export industries, those Chinese hoping to emigrate, the people of Hong Kong, and American businessmen and consumers. There would be, in our view, no real winners. We now must look forward, not backward, in our relationship with the PRC, and seek to build on the constructive ties we have already developed with the Chinese.

Chairman GIBBONS. Well, Mr. Secretary, I think you made a very intelligent and cohesive statement.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Thank you, Mr. Secretary for your presentation.

Page 2 of your testimony you say indeed we have tried to be mindful of the fact large numbers of Chinese officials, both civilian and military, have opposed political repression there.

Are they openly opposing political repression today?

Mr. EAGLEBURGER. This is page 2 of the longer statement, sir.

Mr. SCHULZE. That is the only statement I have.

Mr. EAGLEBURGER. Not openly, no, sir. There is no argument about that. It is largely very quiet but there are a number of people opposed. Official Chinese are very quiet about it.

Mr. SCHULZE. Well, so that—I really am somewhat confused if they are opposed but they are not saying that they are opposed. How do you know they are opposed and how are we determining that?

Mr. EAGLEBURGER. Mr. Schulze, we are aware through a number of sources and with reasons and methods—that there is substantial debate within the Chinese hierarchy behind closed doors, most of the time, in which there are differences of view on what should be happening and what the Chinese position ought to be with regard to political reform in China.

I think you can assume we have ways of knowing those debates are taking place.

Mr. SCHULZE. Would it be better, Mr. Secretary, if you wanted to share that with the committee behind closed doors?

Mr. EAGLEBURGER. I would be more than happy to present to you either behind closed doors or in a classified document some of the knowledge we have of those debates, yes.

Mr. SCHULZE. I would be pleased to have that.

[The information is being retained in the committee files.]

Mr. SCHULZE. Mr. Secretary, in April 1990, the State Department issued a directive instructing immigrant visa posts to accept for processing cases of those Chinese nationalists in the United States who request acceptance of an application for an immigrant visa. Under normal circumstances persons not in lawful status are required to return to the U.S. consulate in their home country.

The State Department allows Chinese nationalists to go to a third country for this interview due to the political situation in China today and the danger of not being able to get out of China after a U.S. counselor processing.

My question is, we have refused to grant similar status to other applicants. We are talking about improved immigrant processing. Doesn't this reflect the presumption that the Chinese would not be able to procure an exit visa? Isn't this part of a crackdown on emigration, and doesn't this—this sort of says to me, Mr. Secretary, that emigration is not freer, and it is not being freed up, it is being tightened and more restrictive and it seems to me that is what this State Department is saying.

Mr. EAGLEBURGER. Mr. Schulze, I think it indicates several things and what you have posed is part of the problem. First of all, very clearly in our conversations with the Chinese students now in this country, they fear that, if they return to China to try to apply for the visa, they will not be permitted to leave.

First of all, there is that fear. Right or wrong, they fear it.

Mr. SCHULZE. The State Department I presume?

Mr. EAGLEBURGER. I am coming to that but I want to make the point that, at the time of the debate over the Pelosi amendment and so forth, the President was aware of that concern on the part of these Chinese students. He felt that was one more reason for acting the way we did.

Second, I won't argue for 1 minute that there isn't at least a question in our minds that, if they return they might not be permitted to leave. That I won't deny. I would also, however, say to you, sir, that the statistics, all of our evidence, all of our experience in China, nevertheless, indicates that those who are now living in China and wish to emigrate are in fact permitted to emigrate.

So on balance our judgment still is emigration is free in the People's Republic of China and that to move against MFN would in fact end that process not encourage it.

Mr. SCHULZE. This is probably not the forum to debate that but all I can say in response is when you have over a billion people, it is certainly no problem to get 17,000—in fact, I think there are certainly more than 17,000 that we would like to release or have immigrate. In fact, we were told that by the Chinese leadership in Beijing some 5 years ago or so when we were there with Chairman Gibbons.

Do you require a passport in order to process an immigrant application visa?

In other words, do we require a passport from China before we process that visa?

Mr. EAGLEBURGER. Just one moment. Yes, we do.

Mr. SCHULZE. OK. Does each and every Chinese citizen who needs to get the requisite passport from the Chinese Government get one?

Mr. EAGLEBURGER. I couldn't possibly say each and every, sir. On the basis of our evidence the vast majority of those who apply get them, but I would be misleading if I said we knew that each and every one that applied got one.

Mr. SCHULZE. My information is, of course, they do not and I just view that as another sign it is not really a free and open emigration policy.

Mr. Secretary, how many approved immigrant visa petitions sent to consulate posts have not gone forward to visa issuance due to the applicants not pursing the application?

Mr. EAGLEBURGER. I don't know. One moment.

Mr. SCHULZE. If you don't have those figures, perhaps——

Mr. EAGLEBURGER. We have no way of knowing that, sir. What we do know with immigrant visas, since we initiate the process, we can give you figures on. But we have no way of knowing in answer to your question.

Mr. **Schulze**. Well, but you do have the figure, the number of applications sent to the consulates, do we not, and the numbers of those that are not followed through?

Mr. **Eagleburger**. That we do know. If you want it, we will submit it to the record.

Mr. **Schulze**. Fine.

[The information follows:]

# THE U.S. VISA PROCESS IN CHINA

## Immigration Visas

For China's most-favored-nation (MFN) status to continue, the Jackson-Vanik Amendment requires that the President determine that extension of the MFN waiver will substantially promote freedom of emigration. After considering all relevant facts, the President decided that the continuation of MFN would advance that objective.

While China has continued to permit emigration since Tiananmen Square, concerns have been raised about whether political screening by Chinese security organs may be preventing interested individuals from emigrating. U.S. diplomatic reporting indicates that Chinese nationals who qualify for U.S. immigrant visas are not being denied permission by their government to emigrate. The Administration can make this statement with a considerable degree of certainty because we control most of the immigration process.

- In order for a foreigner to emigrate to the United States, someone in the United States -- usually a close relative or an employer in need of a skilled employee -- first must file a petition with the Immigration and Naturalization Service (INS). When the INS approves that petition, it is sent to the appropriate U.S. embassy or consulate, which then notifies the individual.
- After a waiting period (which, due to a backlog, is lengthy in some categories), the applicant completes some statutory requirements, such as obtaining a passport and a medical examination, and then has an interview with a U.S. visa officer. If the documents are complete, a visa is issued.
- Because U.S. Government authorities initiate the immigration process and control the issuance of visas, we would know, either from the applicants or from their relatives or employers in the United States, if the Chinese government denied individuals permission to emigrate.
- The limitations on the number of Chinese able to emigrate to the United States in a given year are determined by U.S. law.
- China does not charge more than a nominal fee to potential emigrants, and departees are not forced to relinquish personal assets or property.

In fiscal year 1989, the number of U.S. immigrant visas issued in China increased by 9.5 percent to around 17,000. The annual numerical limit for Chinese immigrants to the United States was fully met. In the first five months of FY 1990, we issued almost 8,000 immigrant visas, which is about the number issued during the same period last year.

## Nonimmigration Visas

Outside the scope of the Jackson-Vanik emigration criterion, the situation of Chinese seeking to travel to the United States for temporary, nonimmigration purposes, and the process through which they apply for and receive visas, are different.

There have been reports that applicants for nonimmigrant visas have been subjected to additional political screening and restriction, especially in the months following the crackdown in June 1989. Because much of the nonimmigrant visa process is beyond U.S. control, we cannot say with certainty how widespread or severe the restrictions were or to what extent they remain. We have received a number of reports, however, that Chinese enterprises and institutions have attempted to use their influence to prevent political screening from restricting the travel of their employees. This month the head of China's Communist Party, Jiang Zemin, publicly announced an end to investigation of people's activities during the period of the pro-democracy movement. This announcement could conceivably have some positive impact on screening of potential travelers.

- Overall, the number of Chinese visiting the United States is about the same as before Tiananmen Square. In FY 1989, the number of nonimmigrant visa applicants at our diplomatic missions in China increased by four percent, the number of visas issued by two percent, and the number of refusals by six percent. There have been significant changes, however, in the composition of this group.

- Visa applications for privately-sponsored study in the United States have increased. In Beijing the number has nearly doubled, from 1,828 in the first half of FY 1989 to 3,398 in the same period of FY 1990. The Chinese Government reportedly has issued some new directives restricting travel by graduate students, including a requirement of five years of work before departure, but because student visa applications peak in July-August it is too early to assess the full impact of these new rules.

- The number of government officials applying for US visas in Beijing has fallen from 12,364 in the first half of FY 1989 to 8,651 in FY 1990. We believe this is mainly a consequence of the PRC's retrenchment policy and a shortage of travel funds, but the figures also are influenced by the serious downturn in official relations.

The U.S. refusal rate of visa applications in China is high. In FY 1989, out of a total of over 137,000 applications submitted to the U.S. embassy and U.S. consulates, almost 74,000 (54 percent) were refused. This rate was about the same in FY 1988. However, this relatively high rejection rate is due to the requirements of U.S. law and not to Chinese travel restrictions.

Under U.S. law, most applicants for nonimmmigrant visas must establish to the satisfaction of a U.S. visa officer that they intend to return to China after a temporary stay in the United States. As in many developing countries, a large number of Chinese applicants are not able to establish this intent and appear to be seeking nonimmigrant visas for permanent or extended stays in the United States. These applicants must be refused visas under U.S. law.

There have been very few reports of people actually being prohibited from travelling to the United States after receiving nonimmigrant visas. The fact that the number of applicants for several types of nonimmigrant visas -- who must obtain passports from the Chinese government before applying for visas -- has increased suggests that, overall, the PRC policy on foreign travel still remains relatively open.

Mr. **Schulze**. Mr. Secretary, I have some concern, and you know, MFN is—the granting of MFN is based on emigration policy.

In the People's Republic of China constitution, it does not address the issue of the right of its citizens to emigrate. Previous constitutions did refer to this right. And so we have said to the Soviet Union, when you pass a law that guarantees emigration, then—free emigration, then we are going to—why don't we do the same thing with China? Why don't we have some guarantees?

Let me tell you why I think this is important. It is symbolic of a way a nation treats its citizenry. If they are allowed to emigrate freely and they have a relatively good economy and a good social atmosphere, there are not many concerns, about the people returning. It is where they have a great concern because of abuses, whether societal abuses or when the economy is not good, the Government is then concerned about its emigration policy and it seems to me this is one of the levers to sort of encourage governments to treat their citizenry and their economy in a more benevolent manner.

So I don't do this arbitrarily, I think there is a bigger picture and a bigger point, and that emigration policy is a very good indicator of a nation's treatment of its citizen, so why don't we insist upon this with China?

Mr. **Eagleburger**. Congressman, I would argue with you in fact in this regard. I think there are lots of differences between the Soviet and Chinese cases but in this regard we do have the same requirement. In the Soviet case, we have told the Soviets that when they pass an emigration law which we can look at, when it is on the books and we see how they are performing it, at that time we can make judgments.

The People's Republic of China does in fact have an emigration law which is fairly explicit in its component parts and which we have looked at. We have followed the process of emigration from the People's Republic of China. Therefore in our judgment emigration from China, based on that emigration law, is in fact free.

Mr. **Schulze**. Mr. Secretary, 2 weeks after Tiananmen Square all passports and exit visas were invalidated. That is not a liberalization of emigration policies. It in fact goes directly in the other direction.

As you know, the President sent down 4 days before Tiananmen Square the same kind of statement we just received. I know it would be embarrassing and I hope another crackdown or another Tiananmen Square massacre or disaster does not happen in the near future, but I think you are going to have to open you eyes a little bit to this policy.

I know we want to develop good relationships with the People's Republic of China, but I think we are letting down those forces of democracy when we go ahead with this blindly and don't get any concessions, don't get anything, and I just—I think that you should look at the policy again and perhaps change the direction.

I am very disappointed in the administration in the way they are handling it.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Matsui.

Mr. **Matsui**. Thank you very much, Mr. Chairman.

Mr. Secretary, I think the problem is the perception that the administration has created in response to what has happened in Tiananmen. I frankly agree with your conclusion, and I think the President is right in granting the waiver and continuing the most-favored-nation status with respect to trade with China.

The problem, however, is the way the administration handled this; it really doesn't give the public and many Members of Congress any outlet to show their dissatisfaction with what happened in Tiananmen except on their debate on most-favored-nation status. The reason for this is because of the high level trip that you and Mr. Scowcroft took sometime after Tiananmen occurred, the fact the President didn't handle, in my opinion, the student visa issue with any dexterity, and we still have, as you know, Mr. Lizhi—Mr. Fang Lizhi in the United States Embassy in China, and it seems nothing is being done to negotiate some satisfactory solution of the situation.

I am afraid the status quo will continue on, and as a result of that, there is no outlet for the public, for Chinese students who are concerned about the repression, and Members of Congress, and somehow that has to be dealt with. I happen to agree, as I said, that trade is the wrong approach—to prohibit trade is the wrong approach to attack this issue.

I think it will be counterproductive. I think we need to maintain trade.

It is almost as if the administration is saying life goes on, we have a relationship with those old leaders of China and we don't want to disturb that relationship and what happened last June was simply an isolated incident. It was more than than unfortunately, and I think the world opinion is such that it was viewed as a major significant event in terms of China's move to democracy, and somehow I think we need more out of the administration.

We need larger signals in terms of how we should handle this. I realize some small steps were taken in terms of the World Bank and others but it appears those really have very little impact on China, and frankly very little impact on world opinion in terms of how we are responding to what happened.

Perhaps you can comment on my observation.

Mr. EAGLEBURGER. I don't think, Mr. Matsui, it would benefit me to get into an argument on how well we managed the process.

First of all, with regard to Fang Lizhi, I hope you will understand if I say nothing more than what the Secretary of State has already said, which is that this is an issue that you can rest assured has been, is being, and will be discussed with the Chinese Government. It is not something we take lightly and we are working on it. I can't go further than that here, but I hope you will accept my assurances that this is something that is discussed on a very regular basis, and in no uncertain terms with the People's Republic of China's Government.

Second, I would respectfully disagree a bit on the sanctions that have been put in place and the impact on the Chinese Government. I will be the first to concede they have not significantly changed Chinese behavior, I wish it were otherwise.

We are, as I indicated in my statement, more than slightly disappointed with the way which they have proceeded to undo the evil consequences of Tiananmen Square. Having said that, we I think have substantial evidence that at least some of those sanctions—for example, our position with regard to international financial institutions—have been most unpleasant in their consequences as far as the Chinese Government is concerned, and that they clearly wish they were not in place.

Now I cannot argue with you that up to this point at least they have significantly changed Chinese behavior. I would hope over time they will, and I can assure you that, until there is substantial movement on the part of the Chinese Government, those sanctions will remain in place. That is the best I can say at this point.

Mr. **Matsui**. Perhaps there are other things—obviously it is the diplomatic areas that are going to have to be dealt with, but perhaps there are other things that are noneconomic that can be done and at least send some signals to China and certainly to others that more be done.

I think you are right, I don't think we have seen substantial change. I think something more has to be done to express our outrage. You use the terminology, slight effort has been made.

I think it has to be more than that. Those are just my observations and I appreciate your testimony today.

Chairman **Gibbons**. Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman and welcome Secretary Eagleburger. It is good to have you here.

I apologize for missing your verbal testimony.

Since I did come in late, I would like to mention a couple of things.

You mentioned that there are some sanctions that have been applied by the administration, which is true, and you also mentioned that they have not been notably successful at this point, or to this point. And that the administration is representing at every opportunity to the Chinese our dismay at what happened last year and our desire that they loosen up.

How long do you think we ought to wait? If the situation 1 year or 2 years from now is not changed from what it is now should we still continue the policies that are in place now, or give up, or escalate the policies? What would be your view?

Mr. **Eagleburger**. That is a good question for which I don't have a very good answer. I can't give you a time frame, Congressman Pease. I guess what I would have to say is that, obviously if there is no change over the course of a period of time, I would certainly hope it is less than a year—we are going to have to take another look at our policies. I think it is clear that we are going to keep the sanctions which exist now in place until such time as there has been substantial movement. There might be ways in which we would have to escalate our expressions of our dismay with what proceeds in China.

But let me make a point here, which is that in my judgment this does not necessarily include MFN. The whole point I tried to make in my statement and the whole approach this administration is taking with regard to MFN is clearly based on the judgment that the continuation of most-favored-nation treatment for the People's Republic of China, in essence, benefits those elements within the Chinese body politic that we want to support.

They are the reformers, they are the people who want change in China. To cut off those kinds of ties would in fact place them into the hands of those in Beijing—and there are some in high levels in the Government—who would love to hide behind that wall, to insulate themselves from the rest of the world, and who are terrified by what they have seen in Eastern Europe and in the Soviet Union. To them the only answer is isolation.

I think we need to be careful in everything we try to do with regard to that situation in China not to play into the hands of those people.

MFN, in our judgment, is one of the ways in fact in which we support those in China who want reform. I can't deny at the same time that granting the continuation of MFN status in a way strengthens the Government of the People's Republic of China. It does some of both. But to cut it off removes a major element of our ability to support those in China who do want reform.

Mr. PEASE. Mr. Secretary, your reply suggests that the administration has made a calculation, a judgment that continuation of MFN at least marginally, perhaps more than marginally, helps those who might ultimately produce reform.

You did not mention the attitude of the administration on principle.

Does your reply suggest that the administration believes there are some circumstances, say other than emigration, in which the United States ought to condition MFN?

Mr. EAGLEBURGER. I have got to give you a general answer to it and then try to draw it to the specific.

Of course, there have been, there are, and I am sure there will be cases in which our judgments on the granting of MFN will be affected by more than simply Jackson-Vanik, and human rights in a general context will be a consideration.

I should emphasize, however, that, on the legal basis on which we are asked to judge, it is emigration policy. But there will be times and there certainly are times when human rights issues are engaged in the process. I can tell you in our judgment human rights are engaged in the process as the President thought through whether to renew MFN or not in the case of China, in the sense who is that is most hurt and how that is. In fact, we try to encourage the return to the kind of China we thought existed before we saw Tiananmen Square. Human rights were engaged and involved. They will be engaged and involved in other cases.

In our judgment there is also a difference between granting MFN for the first time when there is not a long string of American businesses and people engaged who have made investment decisions and so forth on the bases of the judgment that something is in place. Therefore, to end it causes some pain and anguish to a number of people, Chinese and American, who have engaged themselves on an assumption that this process would continue.

There is a difference between this case and a country that does not now have it and people have not made investment decisions, business decisions on the basis of an assumption. So there are a number of issues that become involved. Sir, I won't argue that for a minute.

Mr. **Pease**. I think it is important to make that clear because a number of the business witnesses who came before us on Tuesday made the point that in no case should trade be tied to human rights.

That would not be the position of the administration, is that correct?

Mr. **Eagleburger**. That won't be the position of the administration. Can I make one comment? Not the administration, although it is something I feel very strongly, which is we also need to think, Congressman Pease, about the world in which we are moving, and the changes in our position on a worldwide basis. The competitive nature of the future international economic zone is such that I think we need to think harder in the future than we have sometimes in the past about our ability to export, our ability to compete, and our ability to be considered reliable suppliers.

Those are not, again, the only judgments on which we must make our decisions. But we are going into a world in which it is going to be tougher for us, and we need to keep that in mind as we think through these trade problems.

Mr. **Pease**. I think that is a very good statement, and I would agree with that statement as well.

One of the reasons why the United States is looked upon as a model across the world, is not only our Constitution, not only our Bill of Rights, not only the fact that Americans are free to burn the flag if they want as a form of free expression, but because sometimes we take principled standards on human rights, even when it is not in our own best interest to do that.

I think that has got to be part of the equation as well.

What would happen in your view? You said judgment or calculation was made in extending MFN at this time.

What would happen if in the next year instead of the situation getting better it gets worse in China? Presumably the administration would make another judgment a year from now and would take that then current human rights situation into account.

Is that correct?

Mr. **Eagleburger**. I have to assume that, Congressman. I am confident that, when this issue comes up again next year, the President and his principal administrators will go through a process of looking at the whole picture, not simply one particular element of it.

The President's decision this time with regard to MFN was not something that was made on the spur of the moment. There was a good bit of thought that went into the process, a good bit of analysis of the consequences. I am totally confident the same process will proceed next year.

Obviously, I am not the President of the United States, and in the last analysis he will have to make that judgment. But on the basis of watching the decisionmaking process this time, I have to assume it will go through the same process of analysis a year from now.

Mr. **Pease**. Can I assume since the administration did go through this process that the administration would not object to a bill such as mine that would formalize that procedure and require the President to take into account the human rights situation and the number of prisoners and martial law, and that sort of thing.

Mr. **Eagleburger**. Congressman Pease, I know of your bill but I don't know of the details. I would ask to have a chance to look at it completely. I would ask to answer that question in a written statement within the next day or two after consulting with advisers to make sure I am not misstating our position. I don't know the answer.

Mr. **Pease**. That is fine. We would be happy to have it for the record.

[The information follows:]

DEPARTMENT OF STATE
WASHINGTON

July 11, 1990

Dear Mr. Chairman:

You requested my comments on the draft amendment to Congressman Pease's proposed bill (H.R. 4939) placing new conditions on extension of China's MFN waiver. While we share with you and other Members the desire for further progress on human rights in China and continue to press for this objective, we have serious concerns about the impact of this legislation.

Our most immediate concern is the bill's effect on progress on human rights and other issues important to the United States Our current sanctions have already sent a powerful message to China's leaders. Some positive steps have resulted, including the release of almost 900 political detainees as well as Fang Lizhi and his family. With increasing signs of moderate, pragmatic thinking in Beijing, we fear explicit public linkage of MFN to human rights may harden China's posture, and make it more difficult to address our concerns. With an evolving situation in China, we believe it best to retain flexibility in deciding how to promote our human rights objectives.

Additional MFN criteria would also add new uncertainty to an already difficult commercial relationship. Some U.S businessmen may interpret this bill as notice to close shop, as they suspect new criteria may make MFN for China impossible to sustain. New MFN criteria inevitably place U.S. companies in China at a competitive disadvantage vis-a-vis European, Japanese, and other competitors. None of our allies extends MFN to China on a conditional basis. We are also concerned how the bill would affect Hong Kong. While it allows the President to consider the effect on Hong Kong in granting a waiver, we feel that damage to confidence would occur on passage of the bill.

The Honorable
    Sam Gibbons,
        Chairman, Subcommittee on Trade,
            Ways and Means Committee,
                House of Representatives.

**The Administration wants to work with Congress to build bi-partisan support for an effective China policy. We value efforts by members of Congress to suggest an alternative strategy for attaining our common objectives in China. However, our assessment of this proposal is that it risks doing more damage to U.S. economic, human rights and other foreign policy interests in China than advancing those interests.**

Sincerely,

Lawrence S. Eagleburger
Acting Secretary

cc: Congressman Dan Rostenkowski

# STATE DEPARTMENT VIEWS ON PROPOSAL OF CONGRESSMAN PEASE FOR CONDITIONAL MFN APPROVAL FOR CHINA

The President decided to renew most-favored-nation (MFN) status for China in order to preserve an important element of U.S.-PRC relations. He considered the emigration requirements under the Jackson-Vanik Amendment as well as the impact that withdrawal of MFN would have on the United States, China, and Hong Kong, and decided upon extension. There are no conditions attached to this decision, although the Administration must review China's MFN status again in one year's time, under the terms established in the Jackson-Vanik Amendment. The human rights situation existing at that time would certainly be one of the important considerations that we will take into account.

The Department of State is opposed to attaching additional conditions -- beyond the promotion of freedom of emigration -- to renewal of China's MFN status under the Jackson-Vanik Amendment. Additional conditionality would present a number of problems:

o Greater Uncertainty for U.S. Business. The business community already is concerned about the stability of the U.S.-China commercial relationship. At a time when the United States faces increasing competition in overseas markets, we need to consider carefully the impact of a conditional MFN on U.S. competitiveness. Some in the business community would see political conditionality as a twelve-month notice to close up shop.

o Unlikelihood of a Positive Chinese Response. Enacting explicit legal conditions for MFN renewal could well make the Chinese hardliners dig in their heels and become even less responsive to U.S. concerns, including those related to human rights.

o Limitation of the President's Ability to Respond to the Evolving Situation in China. It is impossible to predict what the key issues, and the most appropriate responses, will be as conditions change in China. Accordingly, conditionality would limit the range of authority needed by the President to adjust U.S. programs to particular foreign policy problems.

Aside from these potential problems, the fact is that the United States already has important sanctions in place that are putting pressure on the Chinese Government to address our concerns.

o In coordination with our G-7 allies, the Administration has opposed a resumption of World Bank and Asian Development Bank lending to China, except for loans which address basic human needs.

- Since June 1989, there have been no U.S. exports of arms to China under either commercial or government programs.
- The Administration has postponed indefinitely senior-level official exchanges, including ones involving Commerce Secretary Mosbacher and Treasury Secretary Brady.
- Since last June, the Eximbank has been processing loans on a case-by-case basis.
- The Commerce Department has instituted a special review of all high-tech exports to prevent sales to the Chinese military and police.
- The State Department has suspended munitions-list licenses.
- Along with our COCOM partners, the Administration has suspended pre-Tiananmen Square initiatives to liberalize controls on high-technology exports to China.

Specifically with regard to the conditions proposed by Congressman Pease, we would make the following observations:

1) "The making of substantial and demonstrable progress to reverse the pattern of gross violations of internationally recognized human rights dating from June 3, 1989."

-- As noted above, in deciding on MFN renewal for China, the Administration has considered both the express emigration criterion stipulated in Jackson-Vanik as well as our overall bilateral relationship with China, including concerns on human rights. However, there must be some flexibility in this determination, and we do not believe it would be productive explicitly to interject a human rights-related condition for MFN renewal. Such a condition would create additional uncertainties in the U.S.-China commercial relationship, and discourage further trade and investment between the two countries. There are other, more appropriate measures, already in place, that are designed to keep the pressure on China to improve its conduct in the area of human rights.

2) "The termination of martial law throughout the PRC, including Tibet."

-- The Chinese already have met this condition. The Chinese lifted martial law in Beijing in January and in Lhasa in May.

3) "The termination of assistance to the Khmer Rouge and the cooperation of such Government with multilateral efforts to negotiate a just and lasting settlement to the conflict in Cambodia."

-- We have asked the PRC to cease assistance to the Khmer Rouge, and we are working with the PRC in the Perm Five context to bring about a comprehensive settlement in Cambodia. We believe that this approach, and not a cutoff of MFN, is most likely to result in diminution of PRC support for the Khmer Rouge.

The Administration and the Congress have the same objectives in China, and MFN can help promote them by fostering an active commercial relationship that supports the forces of reform and modernization in China. Adding further conditions to MFN renewal could well serve to weaken that vital relationship, rather than strengthen it.

Mr. **Pease**. I am disappointed I couldn't induce you to make an on-the-spot decision.

Mr. **Eagleburger**. If I learned one thing in my 30 years, you don't do that very often.

Mr. **Pease**. In any event, I would appreciate a response to that.

One of the pieces of legislation in Congress would seek to overturn the President's recent decision. A lot of us feel on policy grounds that that would be a difficult thing to do, and on political grounds would be very difficult to do given the uncertainly over the *Chadha* decision and certain opposition of the administration.

Another course which seems to be a middle way would be not to serve the MFN decision this year, but to put in place a requirement in considering MFN next year that the President take certain things into account. Essentially that is what my bill would do, and I look forward to having your reaction to it.

Mr. **Eagleburger**. Can I give you an off the cuff reaction, which is not the answer to your question? This is, again, thinking outloud a bit.

We need to be careful as we think about the trade issues, how much we legislate as conditions in advance. Jackson-Vanik is clear. It is an issue and we can make judgments based on it. Now Congressman Schulze may disagree with the judgments, but we can make some judgments on it. As a general principle, I personally would be reluctant to see us add a lot of other conditions to essentially a trade issue, where I won't argue, and have not argued, that there are other considerations that would go into it. But I also think we need to think about the future and the kind of world we are going to be moving into.

I have not yet answered your question, I will get you an answer in writing. I want to flag for you now my concern about this particular point.

Mr. **Pease**. I would agree with you, we should not enter lightly into this sort of activity. I just mention sort of a parallel situation, not exactly by any means, but we were told in 1988 that we ought to be reluctant to impose super 301 as part of the trade bill because there might be reactions and so on.

Congress ultimately disregarded those and adopted super 301 anyhow. I think there is agreement that the situation has improved markedly in the Japanese market as a result of the input provided by super 301. I guess my only point is, if we can do it carefully and responsibly, a piece of legislation such as I am suggesting might strengthen the hand of the administration as it seeks through diplomatic channels to improve the human rights of China during the next year.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Thank you.

Thank you, Mr. Secretary.

Mr. **Matsui**. Mr. Chairman.

Chairman **Gibbons**. Go ahead.

Mr. **Schulze**. Mr. Chairman.

Chairman **Gibbons**. Would someone take over while I go vote?

Mr. **Matsui**. Mr. Eagleburger, in your statement, you indicate before any real changes are going to occur you have to see basically a new generation of leadership if I am not mistaken.

Am I correct in that analysis?

Mr. **Eagleburger**. Up to a point. Fundamental change to the degree it comes—I mean when I talk fundamental, I am talking about the things we are seeing in the Soviet Union—clearly requires a new generation. There are those, however, in this older governing generation who are unhappy with the process since Tiananmen, think it has gone in the wrong directions, feel that economic opening, and I think some—a fewer number believe political liberalization as well, are essential to bring China into the 20th century, much less the 21st century. It is the next generation however you define that.

I personally think, and I am no great expert on China, that this will be the generation that leads to the more fundamental kind of change that we are seeing in a good bit of the Communist world today.

Mr. **Matsui**. The reason I asked that question was 12 months from today if you are here, you probably will not have seen much change in the status quo.

Mr. **Eagleburger**. I don't know. I don't want to say there will be no significant change between now and a year from now. It depends on how you define significant. The possibilities of major relaxation tendency since Tiananmen I think is possible. What we see with Gorbachev I think is not possible. There is a wide middle ground. I can't be specific how much change may take place.

I do think there are possibilities in the course of the next 12 months that there will be movement away from the process we have seen in Tiananmen.

Mr. **Pease** [presiding]. Mr. Matsui, if I might, Mr. Schulze has an additional question and comment. We have about 2 minutes until all time is expired on this current vote. Go ahead.

Mr. **Schulze**. Thank you, Mr. Chairman.

Mr. Secretary, we discussed in the first found of questioning the fact that 2 weeks after Tiananmen all passports and exit visas were invalidated. And I am talking about emigration policies now which is the fact upon which we must make the decision for most-favored-nation status.

Another post-Tiananmen Square requirement are two reports which must be filled out by exit permit and passport applicants and those reports describe sort of in quotes, my performance during Tiananmen Square, and are expected to be confessional in nature.

Just on the surface to me, Mr. Secretary, it is very intimidating and I don't know who anyone can look at that type of form or policy and say that it is not devised to intimidate.

And so that, again, says to me that emigration policy, rather than either being relatively free, as free as it had been in the past, or even more liberalized than it had been in the past, that says to me it is much more restrictive than it has ever been in the past.

So I would just—again, I think it is a way to apprehend prodemocracy supporters, and it hampers free emigration. I would just like to have your view of that policy.

Mr. **Eagleburger**. Congressman, we obviously have a different view.

I do not contend and would not contend that with regard to emigration policy the attitude of the Government of the People's Republic of China is wholly satisfactory.

It is our judgment, however, and the statistics support the judgment. I also admit to you that, if every Chinese citizen decided to emigrate tomorrow, we couldn't possibly manage it. But the fact of the matter is, emigration statistics indicate that those who want to leave are able to leave, and that by and large emigration out of China is in fact free, and that the number of—the kinds of cases you describe are in fact limited, very limited. Finally, I would say it is our judgment that to move in the opposite direction with regard to MFN, to deny MFN to China at this point, would in fact lead to a substantial reduction in the Chinese Government's willingness to permit people to emigrate.

So the best I can say is the glass is half empty or half full.

Mr. SCHULZE. Exactly. It seems to me what the elimination of MFN right now would do, let's remember it is a slight change in the tariff schedule.

Mr. EAGLEBURGER. Sixty percent.

Mr. SCHULZE. No. It is not saying we are going to cut off all trade. We say the tariffs are a little higher. This is not going to stop products from coming in. With labor rates as low as they are in China, this can be absorbed, and the products will still be lower than anything produced in the United States.

To argue with the other side is ridiculous. We got those figures from some businessmen the other day.

The other impediment to free emigration, which has put up barriers since Tiananmen Square, is the charge to students if they wish to come out of China and study.

We saw the same thing in some very oppressive Eastern bloc nations, and we were abhorred. I want to know if you want to comment on the fee which is charged.

Webster's dictionary defines emigration, quote, "to leave a place of abode for life or residence elsewhere."

This doesn't say anything about permanent. It just—the ability to leave and come back and travel freely across the borders is the definition.

What we are saying here is if a student wishes to go to school in another country, they have to pay a fee that is equal to about 8 years' work, in the penalty to leave the country. That is not free and open emigration. That is a barrier which has been erected and one which I think is abhorrent, and I wonder if the State Department should——

Mr. EAGLEBURGER. I tried to indicate several times, Congressman, this is our judgment on the issue of emigration, immigrant visas—the question of emigrating from China. This is separate from nonimmigrant visas. The emigration process of the People's Republic of China is free, with few limitations.

Even on the nonimmigrant side, the number of visa applications and nonimmigrant visas, although they have changed in character, that is, the issuance of nonimmigrant visas stayed as high as it did before Tiananmen Square as well. As I say, the character changed.

Mr. SCHULZE. Mr. Secretary, we are talking about 1 billion people. They are never going to have any trouble filling those quotas. If we raised them to 50,000, there would be no problem in filling those quotas, or 100,000.

In fact, what did Deng Xiaping say? He said you name the figure, we will let you have them. You are then saying you think emigration has not been restricted across the board since Tiananmen Square?

Mr. **Eagleburger**. That is correct.

Mr. **Schulze**. It is freer and more open, despite the fact students would have to pay 8 years salary to leave, to go study.

Mr. **Eagleburger**. Emigration from the People's Republic of China, in our judgment, is relatively free. It meets the test of Jackson-Vanik in our judgment.

Mr. **Schulze**. Relatively free?

Mr. **Eagleburger**. I cannot say every single Chinese citizen can leave. When you say it has not been restricted across the board, I can tell you in our——

Mr. **Schulze**. In fact, Mr. Secretary, the Congress—I quote. "The dramatic decrease of approvals of visa applications in Beijing and Shanghai, the rate of rejection is the worst it has been in a long time."

That does not—everything I see indicates more restrictions, not fewer.

Mr. **Eagleburger**. Our judgment, on the basis of the number of people who apply and our ability to track the people particularly with regard to immigrant visas, which is a process we control and therefore have pretty good confidence in the numbers, is that they are free to emigrate.

Mr. **Schulze**. It is only based on numbers then. I would like sometime to come down to the State Department and get a pair of those glasses they must issue down there so you can look at things with such a marvelous view.

I thank you and thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Secretary, it is a tough call. I think you made the right decision, and I will support you. I was here when Jackson-Vanik was conceived. Its impact was not the impact the sponsors had expected. They really made hostages out of many people in Russia who wanted to emigrate and for whom the sponsors of the Jackson-Vanik amendment hoped to speed up the emigration process.

I have never thought you could sit outside a country and preach to people and do much about conditions inside. I think I understand totalitarianism. I think I understand police states and things like that. They are not intimidated by being whipped with a wet noodle, and Jackson-Vanik is a wet noodle.

I challenge anyone to show me where Jackson-Vanik has ever done any good. I think it ought to be repealed. There probably is a better procedure, but Jackson-Vanik is flogging ourselves with chains and our opponents with wet noodles.

That is all it is. Thank you.

Mr. **Eagleburger**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Porter.

## STATEMENT OF HON. JOHN EDWARD PORTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND COCHAIRMAN, CONGRESSIONAL HUMAN RIGHTS CAUCUS

Mr. PORTER. Mr. Chairman, thank you for the opportunity to testify this morning on MFN renewal for China.

As you know, Mr. Chairman, I cochair the Congressional Human Rights Caucus with my colleague, Tom Lantos of California. Obviously, in the caucus, about the human rights situation in China, we believe very strongly that human rights are indivisible, that the denial of rights of any individual anywhere are the denial of the rights of all of us. And that human rights are not, and I repeat, not an internal affair of any country.

I think the situation in China is outrageous and continues to be so. The actions taken by the Chinese Government have been, I think, cynically designed to influence U.S. policy cosmetically only.

Martial law has been removed in Tibet, but the repression is exactly the same. The same goes for Beijing. Prisoners are released, but we don't know who they are. Certainly they are not the top leaders that have been taken as part of the democracy movement.

The free flow of information in China continues to be interfered with, interfering with the Voice of America broadcast, for example, jamming VOA transmissions into Tibet; and in Hong Kong, Beijing continues to send very negative signals to the people of Hong Kong, making them vote with their feet and leave in droves without confidence that the future will hold any degree of freedom and promise for them under Chinese rule.

In such a situation, Mr. Chairman, I would strongly suggest that we withdraw the MFN status from China. I therefore disagree very reluctantly with my administration, but I believe we cannot do business as usual with such a regime that does injustice to its people, and if we continue to do business as usual with them, we will do an injustice to those who stood forth for the principles and values that we believe in a year ago, last June; we would send exactly the wrong signal to the people of China.

Having said that, Mr. Chairman, I want to express great concern about the effect of withdrawal of MFN, because I am afraid it would fall upon those who most closely share our values. It would fall primarily on the people of Hong Kong, which does a great deal of the reexport business coming out of China.

It would hurt Hong Kong immensely. It would hurt Guangdong, that does a great deal of the manufacturing upon which Hong Kong's trade depends, and the very elements in China that we most want to encourage would be greatly discouraged if we withdraw MFN.

So, my feelings are obviously very ambivalent about this, and for that reason, Mr. Chairman, let me suggest, and I think the feelings of many Members of the House of Representatives are exactly this way, that if a middle ground can be found, if a conditional withdrawal in the future, if conditions aren't met, can be devised, I think that is the best possible policy for our country to pursue.

You will hear a great deal about this from other Members of the House. I merely ask you to consider that if you are going to go this route, that one of the conditions that you place on the renewal of MFN in the future would be progress in relation to Hong Kong.

The United States has always stood for economic freedom, as well as for democracy and self-determination. Here is the place of greatest economic freedom perhaps on earth; the most vibrant, strong, growing economy, and it seems to me we have an obligation to see that freedom remains in Hong Kong for as long as possible, and that the agreement—the British signed an agreement in 1984 which guarantees 50 years of economic freedom and a measure of democracy, that the Chinese live up to that, and I would write that conditionality into any MFN renewal.

They must meet their obligations under that agreement, and believe me, Mr. Chairman, they are not meeting those obligations. The Chinese are insanely, I believe, sending the wrong signal to Hong Kong. People are leaving, and until those signals change, they will all leave, and it will be gone, a ghost colony they will see in 1997.

I ask you to factor that into your decision, members of the committee.

[The prepared statement of Mr. Porter follows:]

## STATEMENT OF
## THE HONORABLE JOHN EDWARD PORTER
## BEFORE THE
## SUBCOMMITTEE ON TRADE
## OF THE HOUSE COMMITTEE ON WAYS AND MEANS
## ON
## MOST-FAVORED NATION STATUS FOR THE PEOPLE'S REPUBLIC OF CHINA
JUNE 21, 1990

Mr. Chairman and distinguished members of the subcommittee, thank you for allowing me to testify today on U.S.-China relations and MFN renewal. I commend the subcommittee for holding these hearings at this crucial time in the history of U.S.- China relations.

I am the co-chairman of the Congressional Human Rights Caucus. The Caucus is motivated by the belief that human rights are indivisible -- that the denial of fundamental freedoms and human rights anywhere is a threat to free men and women everywhere. The Caucus rejects out of hand China's claim that human rights are an internal matter. They are most certainly not. They are a matter of concern to everyone in every country on this planet.

The situation in China is absolutely untenable. I cannot express to you fully the outrage that I, and the rest of the human rights community, feel about the continued repression inflicted on the over 1 billion Chinese citizens. The People's Republic does not now belong to the people of China. It is controlled by a group of aged leaders whose power rests on the threat of reprisal rather than on the rule of law and the will of the people.

Fundamental human rights are non-existent in the People's Republic today. Ten to thirty thousand political prisoners remain unjustly incarcerated in Chinese prisons. Torture and execution of Chinese and Tibetan political prisoners continue. Freedom of speech, press, assembly, religion, and conscience do not exist in either China or Tibet.

The Beijing leadership continues to restrict the free flow of information by interfering in Voice of America broadcasts to China. It is highly likely that they will also jam the broadcasts of the upcoming VOA transmissions into Tibet. In Hong Kong, Beijing continues to practice an insane policy of intimidation that has severely undermined confidence in the colony. As you know, Mr. Chairman, I could go on and on.

The question for us is how can we help promote positive change in China. Many suggest withdrawal of China's MFN status. Reluctantly, I must agree, and thus disagree with my Administration. I do so because I believe that maintaining business as usual with the current Chinese government does an injustice to those thousands who died last June and sends the wrong message to the millions of others who must now wait silently for a more democratic future. There are times when our country must stand up for our ideals and place values of freedom and democracy at the top of our list and hope that what we do will lead to change in countries such as China. I fear that doing nothing will only perpetuate the unacceptable status quo.

The President's sanctions, intense international criticism and isolation, and the constant threat of MFN removal, have led to no significant changes in China. The lifting of martial law in Lhasa has not ended repression in Tibet and the "release" of 260 political prisoners deserves no credit when their imprisonment was unjust in the first place and when estimates show that there are thousands of others still languishing in prison.

It is interesting to note, however, that these changes, while meager and cynical, were made with an eye toward influencing pending U.S. action. In January, while we considered the Chinese student visa bill, martial law was lifted in China. When we approached the anniversary of the student demonstrations in Tiananmen Square, some 200 political prisoners were released. Only a few names, I might add, have been made public. And, at the same time, martial law was finally lifted in Lhasa, Tibet after nearly two years of constant police patrol and harsh restrictions on all forms of Tibetan life.

But these changes have been mostly cosmetic. Armed policemen have replaced soldiers and the teeth of martial law restrictions remain firmly in place.

My reservations with MFN withdrawal stem from my deep concern over Hong Kong. Because of its trade responsibilities, I know that this subcommittee is well aware of the Hong Kong miracle. The colony provides a case study of what the wonders of free markets and entrepreneurial spirit can create.

MFN withdrawal would have a very negative effect on Hong Kong. With 70% of U.S. imports from China re-exported through Hong Kong, a loss of MFN status would cause a serious decline in commerce through Hong Kong. Hong Kong authorities predict a loss of over $10 billion to the colony's economy. Virtually every sector of the commercial and financial community would be adversely effected. This would further destabilize Hong Kong, which is already struggling to overcome a loss of confidence as its citizens contemplate the 1997 Chinese takeover.

Over 50,000 citizens plan to leave the colony this year -- perhaps more next year. The colony's post-1997 constitution, drafted by Beijing, does not provide for democratic guarantees and gives the 5.7 million residents little hope that their future rulers will be benevolent ones.

I do not believe that our government has stood up for Hong Kong's political future. We have supported increased trade, but not human rights and democratic institutions. Since 1984, it has been clear that China, with British acquiescence, was willing to sacrifice Hong Kong's economic success in order to instill ideological communist orthodoxy. Unfortunately, our government, and the current administration have made not one official comment in support of Hong Kong democracy.

Had we done so, perhaps, the withdrawal of MFN would not be so potentially devastating. As it is however, MFN removal will have serious consequences.

These concerns, along with the worry that drastically increasing tariffs for Chinese imports may hurt reform-minded individuals and businesses inside China, lead me to support the notion of conditional MFN removal. While I am willing to vote for withdrawal if that is my only choice, I think a more sensible approach would be to condition future extensions on specific human rights improvements. I think a good number of members would agree.

Conditions should include, the ending of intimidation and harassment within China and the U.S. of anyone involved in or sympathetic to last June's demonstrations, the release of those imprisoned in the PRC and Tibet for their political or religious views, an accounting of all those released or still detained, allowing Fang Lizhi and his wife freedom to leave on their own terms, and some concrete steps to provide fundamental human rights to Chinese and Tibetan citizens. With regard to Hong Kong, China should be required to take steps to allow some amendments to the Basic Law, they must retract threats made to the colony's political leaders, and they must not interfere with immigration policies designed to provide a safety net for Hong Kong residents.

I believe that this approach effectively balances the concerns most of us share about China's MFN status. It would also send the clear message to the Chinese leadership that human rights are the cornerstone of all civilized societies. Until Chinese citizens are provided the freedoms and dignities to which all persons are entitled, the Beijing government should not be given unfettered benefits of the West.

Chairman GIBBONS. Thank you very much.

Mr. Solarz.

## STATEMENT OF HON. STEPHEN J. SOLARZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. SOLARZ. Thank you very much, Mr. Chairman.

I want to commend you for holding these hearings. I think you are dealing with some of the most vexing policies of trade that affect the Congress and the country at the present time.

Most of the witnesses, I gather, who have appeared before you so far have advocated either an immediate suspension of MFN status for China or the indefinite and unconditional continuation of MFN status for China.

I have to say, Mr. Chairman, after having given this question considerable thought, and having sat through some lengthy hearings that my subcommittee held on this question, that I find both alternatives unsatisfactory, and ultimately unhealthful in terms of fundamental American interests, both at home and abroad, for a number of reasons.

Insofar as the immediate suspension of MFN is concerned, my feeling is that it would, first of all, quite clearly create some serious problems for a number of American importers and for those Americans who depend on low-priced goods coming in from China.

Second, it would clearly have a very significant adverse impact on Hong Kong, which would find literally billions of dollars of trade from China to the United States that is shipped through Hong Kong, would be cut off. And that would have very adverse consequences for the future of the territory at a time when the confidence of the people in Hong Kong and the future of the territory literally hangs by a very slender thread.

I happen to believe we have a significant interest in the future of Hong Kong. We have over $8 billion of American investment there. There are over 800 American firms that do business there. There are 8,000 Americans living and working there. And what happens to Hong Kong will ultimately have a significant impact on the future of Taiwan, as well.

And while confidence of the people in Hong Kong is not in and of itself the only factor in determining the future of Hong Kong, much will obviously depend on how China deals with Hong Kong, particularly after the transfer of authority in 1997.

The confidence of the people in Hong Kong and their future is a necessary, if not a sufficient, condition for a vital and viable future for the territories. So, I think that we should act with great reluctance when it comes to taking any actions that could adversely affect the future of Hong Kong.

Third, I have to say that I have no confidence whatsoever that the immediate suspension of MFN status of China would enable us to achieve our very important human rights objectives in China.

If I thought that by immediately suspending MFN and by depriving the Chinese Government of the billions of dollars worth of exports to the United States which MFN makes possible, that we could in a relatively brief period of time secure the release of all the political prisoners or that we could bring to an end the ongoing oppression in China, that we could secure the immediate release of Fang Lizhi and his wife from our Embassy, if all of these things would happen as a result of our suspension of MFN, I would strongly support it, because I think we do have a significant stake in the democratization of China and a government in that country willing to respect the human rights of its own people.

I fear it would not have that effect. I think it would, in effect, if anything, induce them perhaps to increase their oppression. Keep in mind that we had an embargo, a total embargo on trade with China for over two decades, didn't have much of an effect.

The Soviet Union, when they had a quarrel with China, cut them off, pulled back advisers, withdrew factories; that didn't have much of an impact, either. Based on everything we know about the history of China, it is very difficult to conclude an immediate suspension of MFN is going to bring the Chinese leaders to their knees and induce them to come to Washington on their knees.

Fourth, I have to say, if I were convinced, in spite of everything I just said, that the entire leadership of the prodemocracy movement in China, and those that were in the forefront of the struggle for political and economical reform in China, believed that the best way for us to help them achieve greater democratization and respect for human rights in China was to immediately suspend MFN, I would say let's suspend it for the same reasons I supported sanctions against South Africa. When a closely unified black leadership of South Africa, particularly consisting of those who struggle to abolish apartheid, says to our country, let's impose sanctions, because that is the best way to help us, even if it hurts us in the interim, I think we have an obligation to respond to that sense of direction.

It is exactly what we did in the case of Poland in Eastern Europe, when Jaruzelski established martial law in 1981. The leadership of Solidarity asked us to impose sanctions, and we did. Several years later, it became clear the sanctions were no longer productive. Solidarity asked us to lift the sanctions. We did.

I think we should take our cues from how the leadership of China feels. Here I have to say the signals we are receiving are very mixed and ambiguous. There are clearly some who believe we should suspend MFN immediately. But there are many others who think it would be unwise.

Sherryl WuDunn, for example, the Pulitzer Prize correspondent for the New York Times, filed an article a couple of months ago in which she claimed—she speaks Chinese fluently—that a majority of the intellectuals and others who are associated with the movement for political reform thinks the suspension of MFN would be counterproductive.

I met 2 weeks ago with ChiaLing, an extraordinary young woman, the commander of the students in Tiananmen Square, who has managed to escape from China, after 9 months on the lam, an incredible saga of bravery and determination. The very fact she could escape, even though she was number four on the most wanted list, even though she traveled in many parts of the country, even though she was seen and recognized by many people who knew who she was, has to tell us something about the extent to which the Chinese Government has lost its legitimacy.

She came, and I met with her in my office, and I asked her how she felt about this issue. The impression I got was that she thought we ought to use MFN for the leverage it could give us in getting the Chinese leadership to relax on oppression, but the best way was not to eliminate immediately. Rather we should make it clear to the Chinese leadership that whether we renewed it in the future would depend on their progress toward these objectives.

Finally, Mr. Chairman, I think it would be unwise to suspend it right now, because the people who would be hurt the most by a withdrawal of MFN would be precisely those sectors of Chinese society that have been most actively associated with the effort to bring about political and economic reform.

I am referring to the entrepreneurial elements. When the gang of elders that have seized power in Beijing pass from the scene, as they undoubtedly will in the relatively near future, a struggle for power will emerge. And I believe at that time, the entrepreneurial elements and the coastal sectors will be a significant factor in determining whether the proreform voices will succeed.

It is not clear to me it is in our interest to weaken those elements. On the other hand, Mr. Chairman, I think I have to say it is a serious mistake to simply renew MFN without any conditions whatsoever, because that sends a signal, even if it is unintended, to the Chinese leadership, that the cause of democracy and human rights in China is of a secondary concern to the United States.

It enables hardline elements within the leadership who will be making a bid to seize total power when the current gerontocracy passes from the scene, to argue that China can have its cake and eat it, too. It can have the benefits of Western cooperation and American trade in its efforts to modernize without relaxing on the repression. To simply extend MFN would comprise reformist elements of China who might offer the argument that if they do want to modernize, for which trade with the United States is an essential component, they have to demonstrate greater respect to democracy and human rights of their own people.

Consequently, I think, Mr. Chairman, we should seek a middle way for the Middle Kingdom. And that middle way, I think, is more or less along the lines, the approach that has been suggested by the very distinguished colleague, Mr. Pease.

It would, in effect, permit the renewal of MFN status of China by the President to stand, but it would, through the enactment of legislation, make it clear that the subsequent renewal of MFN would be a function of the extent to which China may progress in the area of democracy and human rights.

And I am planning to introduce legislation along these lines which spells out the kind of improvements and progress that would have to be made.

Very specifically, it would provide that in addition to maintaining freedom of emigration, the Chinese Government would have to have done the following in the interim period between the renewal of MFN by the President and the time it comes up for renewal next year:

First, release significant numbers of Chinese citizens arrested for the nonviolent expression of their political beliefs, and not require those retained to plead guilty for the crimes they didn't commit as a condition of their release.

In other words, progress would have to be made, the trend would have to be moving in the right direction.

Second, they have to take steps to provide an accounting of those Chinese citizens who have already been released and those still detained. Once again, I think there is some flexibility in the administration of this particular condition. It is the progress and trend line we would be looking at.

Third, to a significant degree, they would have to accord those Chinese still who remain detained, and those who are accused, the due process which is promised in the legal codes of the People's Republic of China itself. Here, we would simply be asking them to live up to their own laws and constitution.

Fourth, that they had given permission to Fang Lizhi and his wife to end their refuge in the United States Embassy in China, on terms that are acceptable to them. This is one question which is not relative, but absolute. Either they are permitted to go or they are not permitted to go.

Next, it would require them to take significant steps to broaden the limits on political expression which have been severely restricted since Tiananmen Square.

Finally, end all acts of intimidation and harassment of Chinese in the United States. I want to say very briefly, Mr. Chairman, a word about the last point. My subcommittee had a hearing the other day, and the FBI and the State Department testified about these dramatic revelations we received recently from a Chinese diplomat posted in Washington who defected and who turned over documents revealing the existence of a massive scheme to intimidate Chinese students in the United States from expressing their criticisms of the Chinese Government and their support for the prodemocracy movement.

On the basis of the testimony we received, I tell you, Mr. Chairman, what is involved here is a massive effort going on in every part of the country, on most college campuses throughout the United States, in which in particular those students who have been providing the leadership for the prodemocracy movement are being singled out, harassed and intimidated.

One student appeared before us and told us his wife, who is still living in China, was so severely harassed by the Chinese officials, who apparently complained about his activities here in the United States, activities which under our Constitution were perfectly legal, that the poor woman attempted to commit suicide and strangle her own daughter.

Fortunately, she is still alive and the child still lives. You don't do that kind of thing because somebody subsequently knocks on the door in the middle of the day. I don't think this behavior is permissible. We have an existing law which I regret to say so far, the administration has not enforced, requiring the termination of all arms sales to any government which engaged in a pattern of harassment and intimidation against people in the United States.

I expect they are going to invoke that law fairly soon, because the record established in our hearing is so compelling, so convincing, so comprehensive, that I see no way for them to get out of implementing the law.

But even if they implement it, suspending the sale of arms to China when we are not selling them any arms at the present time is not likely to constitute a particularly powerful incentive.

I think if we have any real respect for our own Constitution and the Bill of Rights, we have to enforce that against efforts by foreign governments to violate fundamental American freedoms here in the United States.

Whatever you think about what they are doing in China, even if you believe that is their business, not ours, everyone can agree that what goes on in the United States is our business, and we must bring to an end efforts on the part of the Chinese Government to intimidate student leaders in the United States.

And I can think of no better way of doing it than letting them know that if they want the benefits of MFN, this had better come to an end.

Finally, Mr. Chairman, let me just say I think we need to consider the practical, political and parliamentary context in which this issue is going to be considered. Once the miscellaneous tariff bill, which I gather is now in conference, is reported out, it will, as I understand it, contain a provision which will undo the consequences of *Chadha* and provide an expedited procedure for any joint resolution of disapproval filed against the President's decision to renew MFN in China.

That means whatever the sentiment in your subcommittee, whatever the sentiment in the full committee, we will inevitably end up voting on this issue on the floor of the House.

I want to suggest, given the extent to which the polls seem to suggest the American people believe we shouldn't be continuing to conduct business as usual with China in the face of continuing and systematic oppression in China; that our ability to avoid an instantaneous suspension of MFN, which I think would be counterproductive, may very well depend on whether members have an alternative to vote for in the event the immediate suspension of MFN is not adopted.

And, therefore, I think you need to consider this in that larger context. I do not believe that a legislation requiring China to meet certain conditions for MFN to be renewed next year, if those conditions are drawn in the way my bill suggests they be drawn, are conditions China cannot or will not meet.

It does not require them to relinquish power. It does not require them to relinquish the leading role in the Communist Party. It does not require them to agree to the establishment of a multiparty system. But it simply requires them to release some of the political prisoners, to permit greater freedom of expression, to respect the due process rights their own constitution affords those that have been accused.

So, Mr. Chairman, I think this is the way to square the circle. I urge you, as you consider this issue, to give serious and sympathetic consideration to legislation which I introduced, which I believe has the support in principle of Mr. Peace, and many other Members of the House whom I have spoken to who are very reluctant to vote for an immediate suspension, but on the other hand, don't want to appear indifferent to what is happening in China.

This is a way to bring people together and possibly get the support of the administration, and I urge its consideration.

[The statement of Mr. Solarz follows:]

**NEWS**

**Congressman**
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## STATEMENT
**by**
**Congressman Stephen Solarz**
**before the**
**Subcommittee on Trade**
**House Committee on Ways and Means**
**June 21, 1990**

Chairman Gibbons, members of the Subcommittee on Trade, I appreciate this opportunity to appear before you and briefly present my views on whether and under what conditions the U.S. should continue Most Favored Nation status for the People's Republic of China. This is probably the most important decision concerning China which the Congress and the country will make this year. It is one in which economic interests, human-rights concerns, and foreign-policy objectives compete against each other.

The United States relationship with China rests on a foundation of positive public opinion. The development in our bilateral ties after 1978 could not have occurred had it not been for a widespread American belief that economic and political reforms in China were making life more humane and tolerable for the Chinese people. The tragic events of June 4th last year fundamentally undermined the American support for US-China relations. The American people, I believe, do not wish their government to make life easier for those who have been calling the shots, so to speak, in Beijing. If there are steps that the US government can take to enhance the short- or long-term prospects for pluralism and respect for human rights in China, I think the American people would like us to take those steps.

I personally do not believe that the current Chinese leadership will depart from its repressive course. The greatest opportunity for real political change in China will come when the octogenarians in control pass from the scene and reformists and hard-liners debate the future of their country. Whether the opportunity is seized will depend primarily on factors internal to China which we have little ability to affect. But we do have influence at the margin, and our interests will be served if reformists can say that China suffered internationally because of the carnage of Tiananmen Square. We should certainly not act in ways that will allow hard-liners to say that the Communist Party can both continue harsh domestic repression and maintain full access to foreign capital, foreign markets, and foreign technology.

Where then do I come down on the decision concerning the extension of MNF for China? On one hand, I believe it is not appropriate to revoke MNF immediately, for the following reasons:

–It would not bring the leadership in China to its knees and so would not be worth the damage caused to American importers, American consumers, American exporters, the people of China, and the people of Hong Kong.

–It is opposed by at least some of those in China who were a part of the 1989 democracy movement and hope for its revival. Chai Ling, one of the leaders in Tiananmen Square last year, told me that the United States should exercise its leverage in support of the human rights and democracy in China, but that in her view, for us to revoke MNF now would sacrifice important influence in the future.

–It would possibly jeopardize many of the more market-oriented and export-oriented industries of south and east China and the reformist leaders who protect them. We can probably have a more positive impact by maintaining contact with this constituency for reform than by undermining it.

On the other hand, I am unhappy with an automatic extension of MFN as if it were sacrosanct. MFN may be the lowest common denominator of international economic relations, but the benefit that China's debt-laden leaders derive from their access to the large and open

US market is enormous–approximately $6 billion in net export earnings last year. Precisely because MFN was raised as an issue of public debate here, Deng Xiaoping and Company probably gained some marginal legitimacy once the Bush Administration decided to extend it for another year. And I am sorry that the President did not act on the suggestions of Winston Lord, our former ambassador to Beijing that he use the MFN issue as a way of exerting more leverage on the Chinese and building a consensus on China policy within the United States.

Uncomfortable as I am with total revocation and simple extension, I think that we should seek to strike a balance. I propose that before the President extends MFN treatment for China in 1991, the Chinese government must have done the following:

–released significant numbers of Chinese citizens arrested as a result of the non-violent expression of their political beliefs and not required those detained to plead guilty to crimes as a condition for their release;

–taken steps to provide an accounting of those Chinese citizens who have already been released and of those who are still detained;
–to a significant degree, accorded those Chinese who are still remain detained and those who are accused the due process promised in the legal codes of the People's Republic of China;
–permitted Fang Lizhi and Li Shuxian to end their refuge in the US Embassy in China on terms and conditions that are acceptable to them;
–taken significant steps to broaden the limits on political expression;
–ended all acts of intimidation and harassment of Chinese in the United States.

I do not believe that it is impossible for the Chinese leadership to take these steps. The Communist Party will not have to give up power as a result of them. And because those conditions are achievable, my proposal is not a disguised and delayed revocation of MFN.

Nor are these steps trivial. For those people who are released from detention, and for those who get some measure of due process rather than none at all, life will be significantly improved. And to the extent that democracy activists are brought back from the brink of despair and the strictures on political expression are relaxed, the prospects for a new day of freedom in China increase.

Finally, I believe that my approach is the one that the American people would want the Congress to take. It neither forces a sudden deterioration in US-China relations nor leaves any doubt that the United States stands on the side of democracy and its underground partisans in China. It signals the leaders of China that the United States will continue to watch its human rights behavior, yet specifies some concrete yet reasonable ways to demonstrate progress. The MFN issue is unlikely to go away. Once H.R. 1594 becomes law and provides expedited procedures for a resolution of disapproval of a Jackson-Vanik waiver, we run the risk of Congress actually revoking MFN–unless Members are given a reasonable alternative proposal to support. If you prudently assume that significant political change in China is unlikely in the next year, and if we do not at least adopt a conditionally approach in 1990 in order to exert some positive leverage, I think it will be much harder in 1991 to quiet the cries for outright revocation.

Chairman **Gibbons**. Mr. Solarz, I always learn a lot when I listen to you. I appreciate your coming in and helping us. I assure you we will give it thorough and fair consideration and try to solve this problem.

You raised a number of excellent points. I want to say parenthetically, I am always impressed with someone who can speak as well as you do, as coherently as you do, without having to use a teleprompter.

Your remarks are very good.

Mr. **Solarz**. Thank you very much, Mr. Chairman.

Chairman **Gibbons**. Let's see, our next witness is Mr. Miller. We have a rule here that committee seniority prevails when the gavel goes down, and after that, it is the order in which you arrive. I realize you arrived long before anyone, Mr. Miller, but on the second time the gavel went down, you arrived third, so go ahead.

## STATEMENT OF HON. JOHN MILLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. **Miller of Washington**. Chairman Gibbons, Representatives Crane and Schulze, I appreciate the opportunity to address this subcommittee on an issue, which as you know, goes beyond economic relations with China; in effect, how we conduct our whole foreign commercial policy.

I gather at some of your earlier meetings, you had panels that said, either approve MFN or disapprove MFN for China, but I think you are getting a panel today that so far, at least, has been saying let's look at some tough conditions.

This week, Representative Nancy Pelosi and I wrote a letter to this committee regarding the extension of MFN status to China, and it came out of the work of the Congressional Working Group on China, which you have attended, I know, Mr. Chairman.

And since we drafted that letter a day and a half ago, approximately 25 of our colleagues have signed the letter, which I think is an indication of concern of Members of the House on that issue. With your permission, since it is a brief letter, I want to read it.

Dear Chairman Gibbons and Representative Crane: We are writing to express our deep concern about the human rights situation of the People's Republic of China, and the impact that an extension of most-favored-nation status may have on prospects for democratic change there.

It is our view that any extension of MFN to China should be conditioned on the unconditional release of all persons detained as a result of the Tiananmen Square crackdown; a full accounting and provision of names of all those imprisoned, killed or missing during or as a result of the Tiananmen Square crackdown; an end to restrictions on emigration based on political views, including the granting of permission for Fang Lizhi and Li Shuxian to end their refuge in the United States Embassy in Beijing; a withdrawal of support for the Khmer Rouge; and an end to intimidation of Chinese nationals living abroad, in the United States and elsewhere, and their families.

Parenthetically, I attended the hearing Congressman Solarz spoke about where we received some very chilling testimony on the harassment of Chinese Nationals in the United States.

In addition, we believe the United States should extend MFN only in conjunction with the following actions: Opposition to all World Bank loans to China which do not meet a strict definition of basic human needs.

Active support of Taiwan's entry into the GATT; increase in funding for Voice of America transmissions into the PRC and Tibet; strengthening of existing sanctions

> passed by Congress since June 4th, 1989; and establishment of a set of human rights principles for U.S. businesses operating in the PRC and Tibet.

Parenthetically, this is something I have been involved with in introducing a separate bill. It is an attempt to try to get American business to adhere to a code of conduct when doing business in the People's Republic of China and Tibet that will further the promotion of democracy and improvement of human rights conditions.

I know American business believes that they—by pursuing trade and investment, are ambassadors of the flag. My bill would try to make that role a little bit clearer, define the role a little better, and give more encouragement to American business to pursue some of those activities. It is not against American business, but is an attempt to improve the situation in China.

Returning to the letter, Mr. Chairman, once again,

> We would like to state, outright extension of MFN without conditions and in the absence of specified U.S. actions is unacceptable. We look forward to working with you on a proposal that can demand broad bipartisan support and will contribute to general economic reform in China.

That is the end of the letter. Mr. Chairman, in closing, let me say there are many economic arguments for extending MFN. I am well aware of them. I come from Washington State, a State where one in five jobs depends on trade, a State where goods totaling over $700 million are exported to China every year, a State where imports from China total nearly $2 billion, so I am well aware of the economic consequences of not extending MFN. But the consequences for the Chinese people, if we do not work for human rights, I believe are even greater.

In light of the continued imprisonment, torture and execution of prodemocracy movement members in China and Tibet, it would be a grave mistake to simply extend MFN status alone.

We should remember there are consequences for the American people if China does not reform. The world would surely be a safer place with a free and democratic China. A China which respects the rights of its own people is a China less likely to supply arms to the Khmer Rouge and to Libya.

A China which respects the rights of its own people is a China whose markets will be more stable and more profitable in the long run for American exporters. Thus, we should remember, while there are consequences for Americans if we do not extend MFN, there are also consequences for Americans if China does not reform.

I mentioned the hearings in Mr. Solarz's committee. Let me just say that I do support an effort in this committee, and elsewhere, to work out a package that has conditions. We must speak out loudly and clearly against the continued oppression of the Chinese people and for freedom and democracy.

We must speak with a voice as loud and firm as those voices in Tiananmen Square. As their voices are silenced, ours must grow stronger. We must work to see they did not die in vain. I urge this committee to take the lead in promoting these pro-human-rights actions, and I certainly am willing to work with the committee on such a proposal.

Thank you, Mr. Chairman, Representative Schulze, for your courtesy.

Chairman **Gibbons**. Thank you, Mr. Miller.

I express my appreciation to you coming earlier. You also have a very fine statement. If you have the time, I am sure there are other members that may have questions. We are not trying to run members off. I know a couple of them had to leave.

You are welcome to stay and answer questions if you have the time.

Mr. Kostmayer.

## STATEMENT OF HON. PETER H. KOSTMAYER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. **Kostmayer**. Mr. Chairman, I will be very brief this morning. You have all been very patient in listening to your colleagues.

Mr. Chairman, let me say I think there are two things we ought not to do, which are terrible, in dealing with this complex situation.

The first is to simply extent a most-favored-nation status to China. That would be a serious mistake. A mistake of almost equal magnitude would be a simple revocation of most-favored-nation status. Those two approaches, which are really at opposite ends of the poles here, I think will not work.

That is why I think the President is wrong in simply renewing MFN status, and why I think those who want to cut it off are wrong. That is not going to work. I think what we have to really ask ourselves is, is what is our objective?

Our objective here is to change Chinese behavior. That is what we want to achieve. Neither of those approaches will change Chinese behavior. If we cut them off, we are going to antagonize them, isolate them even further; they will do exactly what they want. They will feel there is no stake in trying to accommodate us.

The people who are being mistreated in China, I think, will be treated worse than they are being treated today. Simply cutting them off is going to actually hurt the people we are trying to help.

On the other hand, if we grant this status to them automatically, I think they get the impression this is simply business as usual. There is no incentive, no need, no reason for them to change at all.

As others have said, we need a middle approach. Now, Congressman Pease, as I understand it, has introduced a bill which will simply delay this a year. We would look at it in a year, and there would be certain conditions. I think that is a possible approach.

I have introduced legislation which would look at it in 6 months, with conditions. I think we ought not to wait a full year. I think the situation is serious enough we can move up the proposal and take a look at it in 6 months, with conditions, and then look at it again after that, so we look at it really twice over the next year rather than just once.

Let me say a word about Mr. Solarz's proposal, which I think he has introduced. He has introduced proposals which have conditions which are not very stringent or not as stringent as the conditions in my proposal, but they have to be met absolutely.

I think that is a mistake to require the Chinese to meet these conditions absolutely. I think we are asking that it not happen. I think, frankly, we are setting the standard unrealistically.

I have set tough conditions, but I haven't required they be met absolutely. I simply require the President certify there is progress being made toward these objectives. I think that ought to be good enough. We can't expect the Chinese Government to change overnight.

If we ask the Chinese Government to change overnight and meet these conditions absolutely, we are asking this process not work. I wish they would. I don't think it is going to happen. I think my approach of progress toward, rather than absolute adherence to these conditions, is a better approach.

And I am sorry to have taken as much time as I have, Mr. Chairman. I appreciate the opportunity to speak before this committee, before you and Mr. Matsui and Mr. Crane, and especially before my friend from southern Pennsylvania, Mr. Schulze.

[The statement of Mr. Kostmayer follows:]

# STATEMENT OF THE HONORABLE PETER H. KOSTMAYER
# ON MOST FAVORED NATION STATUS AND THE PRC
# PRESENTED TO THE SUBCOMMITTEE ON TRADE
# COMMITTEE ON WAYS AND MEANS

June 21, 1990

Mr. Chairman and Members of the Subcommittee, before I begin, let me first thank you for holding these hearings and for granting those of us with an interest in China's MFN status the opportunity to testify.

I will not take up any time going over recent events in China or the recent behavior of the Chinese leadership. I don't think there is any fundamental disagreement about the facts in this regard; the Chinese government's behavior over the last year has been abominable .

The question we face is what, if anything, we can do to change that.

You heard testimony on Tuesday from witnesses who believe we should not use Most Favored Nation trading status as a tool to seek changes in Chinese behavior. You have also heard from those who would like to see China's MFN withdrawn immediately.

My own view is that in passing the Jackson-Vanik amendment, Congress decided that MFN status should be linked to human rights, and should be used as leverage. Rightly or wrongly, the two issues have been linked since 1974 and we must know consider one in light of the other.

At the same time, however, MFN is a very blunt instrument, and we must recognize that withdrawing China's MFN status will have affect our economy as well as China's.

Outright cut-off, is seems to me, is not likely to achieve our objectives, for the reasons that previous witnesses have mentioned. Nor do I think we have enough votes to achieve an outright cut-off. But a business as usual approach to MFN belies our principles and suggests an indifference to the pro-democracy demonstrators that I think is unacceptable.

For these reasons and others, I have tried to find a middle ground that takes into account the very reasonable concerns on both sides of this issue.

I would limit the President's MFN extension for China to six months. After six months, in December of 1990, the president would have to review China's MFN status again.

In order to extend China's MFN status beyond December 1990, the president would have to certify to Congress that the Chinese government was making progress on a number of human rights matters, including ending the intimidation and harassment, in the PRC and the U.S., of students and dissidents who were involved in or supportive of last year's pro-democracy demonstrations, allowing international human rights monitors access to Chinese prisons, and releasing individuals imprisoned in the PRC and Tibet for their religious and political views. The Government of China would also need to be engaging in good faith negotiations on Cambodia.

Finally, in an effort to at least partially alleviate the concerns of American businesses, I would allow goods contracted for before any MFN withdrawal to enter the U.S. at MFN tariff rates.

My bill is one of a few attempts to find a constructive middle ground between outright extension and outright denial. A member of this subcommittee, Mr. Pease, has a very similar proposal. And many others have expressed support for the general idea of establishing human rights conditions on any further extension.

Establishing new conditions for further extension of MFN benefits to China has a couple of advantages.

First, creating special conditions that China must meet in order to receive MFN does make it clear to the Chinese that they haven't gotten off scott free. The Chinese should pay a greater price for the atrocities of last summer than they have to date, and it would be a tragic mistake if the hardliners in Beijing are allowed to conclude that violent repression of dissent is tolerated by the United States in the interest of stable economic relations and affordable Teenage Mutant Ninja Turtles.

Second, new conditions would create more uncertainty about a further extension of MFN than exists now. The more uncertainty there is about MFN extension in the minds of Chinese leaders the more leverage we have. The Chinese leadership did not make many concessions in the weeks leading up to the president's MFN announcement, but they did release some prisoners, and I would suggest that if it hadn't been so clear that the president intended to extend MFN we would have seen more concessions from the Chinese government.

Third, I think it is useful for the United States to state clearly what we think is important and what we would like to see from the Chinese leadership. I also believe a conditional approach would lend important support the pro-democracy movement in China, especially if the conditions include the release of demonstrators, and an end to their harassment.

If we can agree on a compromise conditional approach, there are two major matters to work out. The first is just what the conditions should be. The second is when we are going to apply the new conditions.

Establishing the conditions should not be especially difficult. The challenge is to establish conditions which are significant but which we can reasonably expect the Chinese to meet. Insisting on the moon when you know you won't get it doesn't achieve anything, but insisting on changes so small as to be irrelevant isn't worth the effort. My bill sets forth very tough conditions but requires the president only to certify progress toward them. Mr. Solarz would prefer softer conditions that must be met absolutely. I don't doubt that we can work the conditions out.

On the issue of how long we should wait to apply new conditions. I personally think that waiting until next year's regularly scheduled MFN review is too long, and too much of a business as usual approach. I think it would be appropriate and useful to have two China MFN reviews over the next 12 months; one in December and one as scheduled next summer. Two reviews would keep the heat up a little. And if the Chinese leadership is willing and able to meet the conditions we set forth, then why should we wait a year to ask them to do it?

On the whole Mr. Chairman, This is a very complicated issue with solid arguments on either side, but neither a simple extension nor a simple revocation is adequate. I hope that we can work together to forge a constructive alternative. Thank you.

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Chairman GIBBONS. Let me say, you made quite a suggestion, and we certainly will give it serious consideration.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I would like to thank our colleagues for their presentations. I hate to disagree with my learned and distinguished colleagues. However, I do.

Let me say that we have had a year. We have had one solid year in which there has been no progress. As a matter of fact, we have had 1 year in which additional sanctions have been imposed on the people of China, where hundreds of businesses have been put out of business; where emigration has been restricted; where all kinds of policies have been imposed; repression.

You heard Mr. Solarz's testimony about the wife of a student who attempted to murder and suicide. That is not policy of a regime which is loosening and liberalizing and say, we are going to work along, yes, just be nice to us for another year. No way.

What we have to do, my colleagues, is send a signal to those moderates in the Government in China and those people who yearn for freedom, to say when you are working toward freedom and liberalizing, we are going to work with you. If not, we are not.

Now, let's look at MFN, and Pete, my dear friend, you said we can't simply cut them off. Let me tell you something. This is not cutting off anything for anybody at any time. What it is doing is raising the tariffs a little bit.

Now, you are talking about people in an area where wages are as low as 18 cents an hour, 18 cents an hour, and we are going to raise the tariffs a little bit. Is this going to make those products noncompetitive? I say to you it is not. It absolutely is not.

In fact, Mr. Solarz, in his presentation, talked about the impact on low-priced goods. There are not many other places in the world where wages are as low as they are in the People's Republic of China. This is not some drastic sanctioning that we are imposing.

As the gentlemen were testifying today, I thought about what we did, United States of America did, to our close friends and allies on Taiwan when we absolutely turned our back on them, and talk about retaliation, they had every right to do so, and of course, did not, and are still trying to have a close relationship with the United States of America, and they are the epitome of free enterprise. Did it discourage them? No, indeed. So, what we have got to do is send a very strong signal.

I also have got to add, I think the list of criteria, and Pete, we agree on this, is—that is worse, in my opinion, than cutting off MFN, saying we are going to renew this but you have to do A, B, C, D. If I were on the other side, I would say go fly a kite. You are not going to micromanage.

I talked to other—we have talked through other States, through Jackson-Vanik, "You are not going to impose your standards on our country." What we are doing is doing that in spades if we put forth a list of commands.

I think we have two choices, that is to approve MFN or disapprove. I come down on the side of disapproving. I wan to ask one question.

Most of you said something about we are sending a signal. Now, what signal does it send if the House passes a resolution of disapproval, the Senate passes a resolution of disapproval, the President vetoes that resolution of disapproval, and the House and Senate sustain the veto? That is the scenario I see happening, and that is why I say to you what signal does that send, sir?

**Mr. Miller of Washington.** Could I respond to that, Mr. Chairman? I will try to respond to a couple other points you make.

I don't think that sends a very clear signal, and that is, I think, an argument, Representative Schulze, if we can get the administration to move in our direction, see if we couldn't come up with a package we could agree on that extends MFN with some tough conditions, because I think it is important that we speak with one voice.

**Mr. Schulze.** John, have you talked to anybody at the State Department or executive branch?

**Mr. Miller of Washington.** Yes.

**Mr. Schulze.** What is their response?

**Mr. Miller of Washington.** I say, if we could get them to move in that direction. They are considering it. And I have got to tell you what disappointed me most when the President came up to the Hill with the proposal, was that nothing came along with it. Your recounting what happened the last year is an excellent argument why we shouldn't extend MFN. I think we should have the conditions and incentives pushed by the Congress and the President.

One point I respectfully have to disagree with you on, and I don't pretend to be an expert on MFN, but when you said denying MFN will only raise the tariffs a little bit, it is more serious than that. I am hearing in my district you are talking about raising tariffs 10 to 70 percent.

**Mr. Schulze.** If I can interrupt—when you are talking about a pair of gloves that cost 18 cents, when you raise the tariff 70 percent, that is nothing. It is nothing. It is so minuscule that it is not funny. I am telling you most of those products are very low-priced products.

Now, I have asked the business community to send me specific examples—we have had businessmen sitting where you are, John, who said you are going to put us out of business. I said, please, send me—we don't want to put anybody out of business and cause pain and suffering, send me the specific examples of how that is going to close down your production line and what is going to happen.

As of right this minute, I have not received one example from one member of the business community. If your people have given those to you, please share them with me.

**Mr. Miller of Washington.** That is at their request. I am not, as you can tell from my testimony, saying that we should under any circumstances not deny MFN even if it hurts businesses.

If I had to vote, Representative Schulze, on extending MFN and there was no other package such as Representatives Solarz or Kostmayer have talked about, or the conditions that Mrs. Pelosi and I have been advancing, I would vote no. But I think we have the opportunity to do something here constructive that truly can help facilitate change in China.

I yield to my colleague.

Mr. Kostmayer. Let me say very briefly, under your scenario, if we do override the veto, that is not sending a signal, we have made policy, so we are out of the signal-sending business and into the policymaking business.

You perhaps know better than I.

Mr. Schulze. I said the veto sustained.

Mr. Kostmayer. I think the veto will be sustained.

Mr. Schulze. Pete, I guess when I think about it, what we are doing is sending a signal saying there is a great deal of consternation and concern in the United States of America, as expressed by the U.S. Congress. The executive branch is going to bend over backward to try to keep open the lines of communication and those good relationships with the People's Republic of China, but it cannot go on the way it is and cannot last forever.

I think that is a pretty good signal to send, rather than some others which might be derived from other pieces of legislation.

Mr. Kostmayer. I think they will react very badly to that signal and will not be able to make any progress. I want to be able to make some progress to improve conditions.

Mr. Schulze. I think we all want the same goal.

Mr. Kostmayer. You see it a bit more black and white, which is always the case with you and I.

Mr. Schulze. I thank you, Mr. Chairman.

Chairman Gibbons. Mr. Matsui.

Mr. Matsui. Thank you, Mr. Chairman.

I think the problem I see in all this debate at this time is this may be the wrong forum. I see what you say, Peter, in terms of conditions. I think if I agreed with any condition, your approach would be certainly the one I would accept.

You want to give the most flexibility. I was looking at Mr. Solarz's list of conditions. I think they are very, very specific, and I am somewhat troubled by those conditions, because if I understand the current leadership in China, once we offer those conditions, they are going to stiffen their backs, and, second, they are going to have to find some face-saving way out of this situation.

I think 12 months from now, we will find ourselves saying, how did we cut off trade with China. That is, by the way, like cutting our cake and eating it, too. We want to show how tough we are to the Chinese Government, but at the same time saying we don't want to disturb our trade relationships with China.

We usually defer action—budget deficit, almost every significant issue in the world, we try to defer it. I am afraid we may be embarking on the same course in this particular action. The problem I see with this trade should not be a component of the debate on this issue. The reason for it, because to a large extent—in fact, to a great extent, we are shooting ourselves in the foot if we cut off trade with China.

This is not a situation of South Africa, where you get a coordinated group of democracies cutting off trade with South Africa, where the South Africans have no other source of information. In this case, if we pull out, we hurt our own people, we hurt our consumers.

And, second, the Japanese and the British and the Germans and everyone else would go in and fill in that vacuum for the next 20 years. Essentially, we have accomplished nothing. Only the United States will be harmed; a little like the grain embargo with the Soviet Union, we shot ourselves in the foot.

That is why I am thinking maybe conditions don't make sense unless they are very, very vague conditions, as Mr. Kostmayer——

Mr. KOSTMAYER. I think my conditions are achievable, that is the point. You want—you don't want to be so weak that you simply say to them, it is business as usual. On the other hand, you don't want a set of conditions which can't be met.

I very rarely disagree with Congressman Solarz, but I think in this circumstance, he has set up a situation in which we are—they will not be able to meet those conditions, and we find ourselves in a terrible situation.

Mr. MATSUI. You see, the problem is, Peter, if we make them so achievable, then we almost put ourselves in a position where they become irrelevant. That is why, once we begin the process of trying to set forth conditions, we may be creating a larger problem for ourselves than we have right now.

To some extent, I think the concern we have is the fact we don't think the administration has been more forthcoming and tougher in this area. Perhaps that is where we should direct our attention, rather than along the most-favored-nation approach.

Again, I think we are going to shoot ourselves in the foot.

Mr. KOSTMAYER. I think you made a good point. I think the Kostmayer compromise can work, and I hope you can cosponsor it.

Mr. MATSUI. I will look at your approach. It is going to be a question of whether we can gain a consensus on the floor on this. It will take a two-thirds vote. Frankly, I don't know where the votes are. Your approach may be one in which we can keep the process moving.

We could put some conditions that are all difficult and they have to be difficult if you want to put pressure on the Chinese. Again, I don't think that is going to work, but you are not going to see any businesses go in and investing in China if, in fact, you make those conditions really difficult, because they will say, why should I go in?

I am not going to put in 10 or $15 million and 12 months from now find out that investment is absolutely worthless. To a large extent, this is the wrong forum to be debating the issue of human rights.

I think the real crux should be in other areas. What is truly interesting about this, those people we want to help in China probably understand that better than we do.

Mr. MILLER OF WASHINGTON. Congressman Matsui, I guess we are here to answer your questions, but I can't resist asking you one question. What you said seemed to be leading—and correct me if I am wrong—to a position saying you extend MFN and separately you pass a statute that has certain pressures, incentives, admonitions, whatever, relating to what is going on in China, in trying to bring about change.

Mr. MATSUI. I was suggesting, John, that this whole issue of most favored nation isn't necessarily leverage. I mean, if we cut it off, the Chinese are going to find other suppliers and all we have done is shot ourselves in the foot.

If, in fact, we want to put real pressure on the Chinese, we ought to find something they really want. We have no indication they are really going to be harmed if, in fact, we suspend most-favored-nation status with the Chinese. That is the part that troubled me.

Take, for example, super 301, I know Mr. Pease said that has had a profound effect on our trade with the Japanese. I can tell you it hasn't at all. I can say other economic pressures have had a result on the Japanese. It wasn't super 301, I mean, that is a joke.

It hasn't had any effect on India; it hasn't had any effect on any of the countries. In fact, all we have done is put pressure on ourselves, do we have to list these countries or not list these countries? That is the problem, and I am afraid the most-favored-nation discussion is creating the same dilemma.

Let's hold something they really want. I don't think this is an effective carrot.

Mr. MILLER OF WASHINGTON. Well, I just note that before the President's announcement he was going to extend MFN, they released some prisoners and made an announcement on the suspending of certain aspects of martial law. I am not—I might——

Mr. MATSUI. I would suggest the World Bank issue was important with the $3 billion loan.

Mr. MILLER OF WASHINGTON. That is one of the conditions in Ms. Pelosi's and my letter. You know, we can——

Mr. MATSUI. John, I agree with that. I think we should be tighter on the issue of the World Bank, but the problem I see is MFN.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

Before you guys get away, let me pose a question to you. The question I put to you, without trying to establish a linkage, some elements of the administration are not supportive about granting membership in GATT to Taiwan.

It seems to me that one following on the heels of the other, though, would communicate a message to mainland China, that is, you are as prosperous as Taiwan, our fifth largest trading partner, and they have petitioned for membership as a Customs territory, not as the Republic of China. There is a tradeoff that would convey a message, and a very positive message, and I think it is outrageous that we have not been supportive of Taiwan's position to get in the GATT.

What is your opinion?

Mr. SOLARZ. I agree entirely with you, Mr. Chairman. As a matter of fact, some of us sent the letter to the administration urging them to support Taiwan's application for admission into the GATT. I think it would be helpful, not only to Taiwan, but to the cause of free trade around the world and the international economy.

I certainly believe the administration should be moving in that direction.

Mr. MILLER OF WASHINGTON. I think Taiwan is entitled to admission into the GATT regardless of what is going on in China, but I think this does give us an opportunity, and that is one of the actions our Congressional Working Group is urging.

Mr. **Kostmayer**. I signed that letter Congressman Solarz made reference to.

Mr. **Crane**. My feeling is you don't make it look in a blatant way, there is the tradeoff, but it is done, and it is done for the right reasons. I agree with you, it should have been done anyway, irrespective of this debate.

Mr. **Kostmayer**. It helps to make a point we have been trying to make.

Mr. **Solarz**. If I could add one more point here, particularly for Chairman Gibbons and the other members of the committee. That is, I think you have a real opportunity in your consideration of this issue to act in a way that conforms in broad bipartisan consensus in the Congress how to deal with China.

And at the end of the day, we are always more effective abroad when we are relatively unified at home. If you go in the direction of doing nothing, we are going to be very delighted because there are going to be a lot of people insisting we cut it off.

If we move immediate to cut off MFN, the administration will be on the warpath, and there will be a lot of people who support them. I frankly doubt we could ever get two-thirds to override an inevitable Presidential veto.

If you go the middle way with some kind of conditionality for some period of time, I think you could bring together an overwhelming majority of the House on both sides of the aisle with a very good chance we could get the administration to go along, as well. And that would send a very clear and unmistakable message to China.

And in the final analysis, you know, if we do nothing, the chances are that a year from now, if China hasn't made progress on these issues, it will simply not be politically possible for the President to renew it, anyway.

I think we have a better chance of getting China to move in the direction we want if they can see unity among our own ranks, and if possible, with the administration. You are the committee that has jurisdiction on this question, with the rest of us watching from the sidelines.

Nothing can realistically be done without your committee playing an active role. I truly believe you have an historical opportunity of forging the consensus in the Congress that could have a significant impact on our whole future relationship with China, and I hope, Mr. Chairman, you and your colleagues on the committee seize that opportunity.

Mr. **Crane**. I thank you all for your testimony, appreciate your being here, and sorry for holding you.

Chairman **Gibbons**. Mr. Gilman.

## STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Gilman**. Thank you, Mr. Chairman.

I regret I was unable to attend earlier. I want to thank you, Mr. Chairman, for conducting this hearing along with our ranking minority member from Illinois, Mr. Crane.

At the end of the Vietnam war, our Nation extended an olive branch to the People's Republic of China because we believed that the U.S.S.R. represented a greater threat to our national security objectives and we needed to play the so-called China card. We forged military and intelligence links with the Communist dictatorship running the People's Republic of China and occupied Tibet. After the death of Mao, leaders of the People's Republic of China flirted with limited private sector development and even instituted marginal market-oriented economic reforms. Significant numbers of Chinese students began studying here and American professors competed with one another for teaching assignments at Beijing University.

But our alliance with the People's Republic of China Government in Beijing was not without its costs. Improved Sino-United States relations required the abandonment of Tibet. Our decade-long covert assistance to Tibetan freedom fighters was cut off.

Conquered and decimated, Tibet was forgotten and buried in the vast gulag that houses some 20 million political prisoners. Her thousands of monasteries were turned to rubble by the People's Liberation Army and sat as silent witness to the ultimate solution to the "Tibetan problem": The obliteration of the Tibetan identity through a vast population transfer of Chinese into Tibet.

In September of 1987, at a meeting of the Congressional Human Rights Caucus, the Dalai Lama first enunciated his five point peace plan. Demonstrators in Lhasa supporting his visit here were mowed down by the PLA. Subsequent demonstrations during the next year and a half met with the same brutal response. In 1988, martial law was declared in Tibet and the authorities announced that "merciless repression" would be the order of the day.

In response to that rapidly deteriorating situation, in the spring of 1988, a number of us in the House introduced legislation imposing sanctions against the People's Republic of China for its conduct in occupied Tibet. We hoped to bring about a more civilized reaction from Beijing to the Tibetans' cause. We became even more disheartened when the Dalai Lama gave away the kitchen sink in order to get to the bargaining table with the Chinese. In a June 1988 statement, delivered in Strassborg, the Dalai Lama proposed that the People's Republic of China could keep control of foreign affairs and even retain its military in Tibet if only the Tibetans could run their own country.

None of these events produced the desired results. The Government in Beijing has not altered its course in any material respect. Chinese repression of basic human rights has in fact escalated, finding a new target in the fledgling prodemocracy movement initiated by the Chinese students. It has been said many times that those of us who were following the events in Tibet were the only ones not surprised by the massacre in Tiananmen Square.

The reaction from so-called China experts to our get-tough proposal embodied in the sanctions legislation has not been favorable. The prodemocracy movement in the People's Republic of China, they argue, should not be jeopardized for Tibet. They contend that the People's Republic of China's economic reforms and our normalization of relations with the People's Republic of China had in fact much to do with creating the movement. Which brings me to the main point of my argument.

If economic reforms in fact brought about the prodemocracy movement, and continued MFN status is necessary to encourage this trend, then why aren't the experts who are trumpeting this argument raising their voices about the current recentralization of the economy in the People's Republic of China? The Wall Street Journal, the New York Times, Business Week, the Far Eastern Economic Review, the Washington Post, and other authoritative sources tell us that authorities in Beijing have recentralized banking, credit, production planning, material allocation, foreign trade and other important elements in the economy. While we are looking for funds to assist the emerging democracies in Eastern Europe decentralize their economies, why should our $6.2 billion trade deficit with the People's Republic of China be used to help that country recentralize and pay the bill for its occupation of Tibet? The papers tell us that approximately 3 million private and semiprivate Chinese enterprises have been shut down and that for the most part, only state-run enterprises will benefit from MFN. Why should we bankroll the return to totalitarian Marxism? How does any of this help our Nation or those yearning for freedom in the People's Republic of China and Tibet?

And last, but certainly not least, if we were to look at this from a purely Jackson-Vanik point of view, there is no reason to grant MFN to the People's Republic of China. Passports are not exactly being issued to Chinese dissidents, and numerous Tibetans are being shot at and killed at the border while trying to leave the country. Let me add that out of the 42,000 students from the People's Republic of China studying here in the United States, only 2, not 2,000, just 2 are from occupied Tibet.

For many year, the United States has purposely restricted its trading relationship with nations whose economic and political processes reflected totalitarian philosophies. Accordingly, leaders of Warsaw Pact nations, South Africa, Nicaragua and others have developed a keen sense of what America considers to be proper international and domestic behavior. They gained firsthand experience for what it means to be ostracized by the United States for repression, terrorism and economic injustices. Now, in varying degrees, they are modifying their offensive postures. As a result, the many bilateral and multilateral trade and aid institutions whose purposes are to assist nations' economic growth are in a moral position to assist them, and they have extra big funding needs this year.

The People's Republic of China should receive the same treatment. Until it stops its brutal suppression of the prodemocracy forces in China and the nonviolent freedom fighters in Tibet, the People's Republic of China should be kept at arm's length and disdained by all civilized countries.

Mr. Chairman, members of the subcommittee, my gut reaction is to ask you to do all that you can to stop MFN with no conditions attached. But I believe if we can save one life through our trade relationship with the People's Republic of China, then a limited extension for 6 months with strong conditions to be met for renewal is worth the effort.

If the leaders in Beijing ignore us again, then I would ask you to cut off MFN. Accordingly, I urge your support of H.J. Res. 607.

I thank you, Mr. Chairman, for the opportunity of presenting my statement.

[An attachment to the statement follows:]

(Original signature of Member)

101st CONGRESS
2d Session

# H. J. RES. 607

HLC

Insert title here ☞

Regarding the extension of most-favored-nation treatment to the People's Republic of China.

IN THE HOUSE OF REPRESENTATIVES

____________, 19___

Insert sponsor's names here ☞

Mr. GILMAN (for himself and Mr. ROSE) introduced the following joint resolution; which was referred to the Committee on____________

# JOINT RESOLUTION

Whereas authorities in the People's Republic of China (``PRC'') have recentralized foreign trade, banking, credit, production planning, pricing policy, material allocation and other important elements of the economy;

Whereas authoritative sources state that one to three million private and semiprivate enterprises in the PRC have been forced to close by the central authorities;

Whereas the unconditional extension of nondiscriminatory treatment would subsidize the recentralization of the PRC economy;

Whereas it has been reported that the PRC is considering the sale of chemicals to Libya which can be used to make poison gas;

Whereas the central authorities have embarked on a campaign to purge the reformist elements in numerous governmental ministries;

Whereas over the past year, Chinese and Tibetans have valiantly tried to achieve greater freedoms and democracy and their efforts have been met with extreme brutality by the government;

Whereas conciliatory relations with the PRC has not resulted in improvements in the human rights situation;

Whereas the lifting of martial law in Beijing and Lhasa was a cosmetic development;

Whereas the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the PRC would legitimize the current totalitarian leadership and its repressive policies;

AND TIBET

Whereas there is no freedom of emigration from the PRC;

Whereas there are 42,000 students from the PRC studying in the United States, only 3 are from Tibet;

Whereas Chinese authorities have continued to arrest, sentence, and execute dissidents in China and Tibet, despite the extension of nondiscriminatory treatment of China by President Bush last year;

Whereas a limited extension of nondiscriminatory treatment would apply pressure upon the Government of the PRC to reform its economic and human rights policies: Now, therefore, be it

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That if nondiscriminatory treatment is extended to the People's Republic of China for a 12-month period pursuant to the recommendation of the President that was submitted to Congress on May 24, 1990, then, notwithstanding any other provision of law, such treatment shall expire on the first day of the 7th month of such 12-month period unless the President certifies to the Congress before such first day that he has determined that--

(1) the Government of the People's Republic of China

has, with respect to human rights--

(A) released all demonstrators and dissidents imprisoned in China and Tibet because of their political or religious views and publicly disclosed their names,

(B) granted permission for international human rights groups to investigate human rights conditions within China and Tibet, including visiting prisons to account for political prisoners in China and Tibet,

(C) ended the intimidation and harassment, in the United States, China, and Tibet, of students and others who are involved in, or sympathetic to, the pro-democracy demonstrations of 1989; and

(D) ended interference with the free exchange of information, including interference with mail and Voice of America broadcasts to China, and interference with mail and scheduled Voice of America broadcasts to Tibet; and

(2) the Government of the People's Republic of China is engaging in active and constructive negotiations regarding Tibet with representatives of the Dalai Lama in order to reach a fair and reasonable settlement of the conflict in Tibet; and

(3) there is freedom of emigration from China and Tibet.

Chairman **Gibbons**. Thank you, Mr. Gilman. You have a very fine, courageous statement there, and I think you contributed to our hearing today.

Mr. Crane.

Mr. **Crane**. I just want to thank you, too, Ben, and I confess to ambivalent feelings about which way to go on this issue. I mean, on the one hand, the impulse is there to bash the Neanderthals that are controlling the people of the mainland.

On the other hand, a question in my mind is the fate of Hong Kong amongst other things, and I think there are complexities involved here because of the business relationships that those people in Hong Kong have with the mainland.

And some businessmen testified yesterday that they are only doing business in friendly provinces; the ones that are most supportive of the administration in Beijing, they have basically avoided. So, the question in mind comes down to whom we are helping and whom we are hurting.

The other reservation I have is the Chinese tend to think in century terms. I mean, it is not—you know what the problem is from year to year, how do we survive this century or the next century, and I am not sure that they really feel the impact, it is the people.

You know, when we imposed the economic sanctions against Panama, all we hurt were the Panamanian people, and the thugs down there and Noriega's crowd, they were independently wealthy, they had their Swiss bank accounts, living high on the hog, so they were immune to any efforts we made in terms of altering their lifestyle or being discomforted.

And the thought crosses my mind, we have something of a parallel here. And perhaps conditionality is the answer, so long as the guidelines are not so precise that there is not room for the degree of flexibility on the part of any administration to look at the situation and say there is progress being made, and for this reason, I make the recommendation to extend MFN.

I think there is one other consideration, and that is, businesses vote with their feet, too. And I know there are some businesses because of the events of Tiananmen Square and other atrocities, some businesses say, you know, this is not a good climate, and to consider setting up business in mainland China.

I think that sends a message, too. The Government says we offered trade benefits here thanks to a decision made by the U.S. Government and American businesses say, for all of that, we are not interested. That is not the kind of climate in which we would like to locate.

As I say, I have ambivalent feelings, I confess, and my greater concern, as Ben Franklin said, a good example is the best sermon. I think in the case of Taiwan, we have that kind of a good example, and we should be supporting those people independent of this debate, but one of the fears I have is if the administration were confronted with a cutoff of MFN to China, that the prospects then of turning around and trying to get Taiwan into the GATT would be injured.

Mr. **Gilman**. I think we all certainly would want to be supportive of Taiwan's entrance into GATT and perhaps some linkage could be appropriate at this time, but I think I think the business community is very much concerned about the recentralization that is going on in the People's Republic of China, in banking, credit, production planning, material allocation, and I think that is why a goodly portion of the business community in Hong Kong are very much concerned.

They had an open economy and now they find that the motherland that will be about to take over—which is about to take over Hong Kong is moving in the opposite direction. It is something they are very much concerned about. I think that, too, is something we should consider as we put some conditionality into MFN, certainly try to encourage that kind of decentralization in an open economy like in Central Europe.

I think you can certainly do no harm to urge that kind of approach to the economy in the People's Republic of China.

Mr. CRANE. I thank you for your outstanding testimony, Ben.

Mr. GILMAN. Thank you.

Thank you, Mr. Chairman. I thank you, ranking member.

Chairman GIBBONS. Thank you, Mr. Gilman.

We now have a panel of witnesses composed of the National Association of Wheat Growers, Mr. Rivinius; the Footwear Distributors & Retailers of America, Mr. Mangione; the Toy Manufacturers of America, President Dave Miller; and the National Foreign Trade Council, Mr. Kittredge.

Mr. Rivinius.

## STATEMENT OF RON RIVINIUS, VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. RIVINIUS. Good morning.

I am Ron Rivinius, vice president of the National Association of Wheat Growers. I am pleased to have this opportunity to present to you the NAWG's position in support of renewing most-favored-nation trading status to the People's Republic of China.

The NAWG strongly supports the continuation of MFN to China. Our position is based on the belief that failure to continue China's MFN status will result in immediate retaliation against imports of U.S. wheat. China trade is vital to the U.S. farm sector and loss of this market would result in a deep decline in U.S. wheat sales and a severe drop in farm income.

U.S. wheat sales to China currently account for 20 percent of our total exports. In 1989–90, China imported approximately 5.5 million metric tons of U.S. wheat worth over $1 billion, making the People's Republic of China our top customer for the second year in a row. Given current production and consumption trends and barring any disruption in present trade relations, we believe the People's Republic of China will remain a major wheat importer of U.S. wheat through the end of this century.

The Chinese typically buy U.S. Soft Red Winter and Hard Red Winter wheat. In 1989–90, the Chinese bought 602,400 metric tons of Hard Red Spring wheat from Minnesota and the Dakotas. The loss of China as an export market will have an enormous impact on the farmers in these States. It will also have a spillover effect on a number of other wheat-producing States. In short, we will have a disaster on our hands similar, if not greater, in magnitude to the 1980 Soviet grain embargo.

Following the death of Mao, in 1979, U.S. Wheat Associates, our sister organization and the cooperator arm of U.S. wheat producers, in cooperation with USDA's Foreign Agricultural Service, decided that the time was right to invest in China. Their first effort, undertaken in 1981, was to establish China's first modern commercial bakery. This successful project was very closely followed by the building of the first instant noodle factory in the city of Shanghai. Several years later, U.S. producers made their largest single investment in China by undertaking the construction of China's first modern wheat flour mill in Beijing.

These firsts, which have vastly improved the sophistication of China's food chain, have been met with widespread acceptance and popularity in the People's Republic of China. Better quality, varied, and convenient wheat-based food products have become an intrinsic part of Chinese life.

Revocation of China's MFN would assure that 10 years of U.S. farmer investment in building the China market will have been a terrible and costly waste. The subsequent effect on the quality of life for the average Chinese is unfortunately not quantifiable.

The United States competes with Canada, Australia, Argentina, and the European Community for the Chinese wheat business. It is our understanding that none of these countries, nor any of China's other trading partners, is currently considering revoking China's MFN tariff status. If we abdicate our position as the major exporter to China by unilaterally taking this action, it will be difficult, if not impossible, to find a market as large for our product. Moreover, our reliability as a supplier of wheat to the world will suffer.

Like many other businesses in the United States, the economic well-being of this Nation's farmers is increasingly dependent upon our ability to sell overseas. The 1985 farm bill, the 1988 Omnibus Trade Act, and the U.S. GATT negotiating strategy for agricultural trade reform, all set a course for U.S. agricultural policy that is based on the concept of international competitiveness and market orientation. For years, the rallying cry has been competitiveness and the agricultural committees of the House and Senate have spent much of this year writing a new 5-year farm bill which is predicated on access to markets.

U.S. wheat producers need a consistent trade policy. The vagaries of the market and the unpredictability of the weather gives us enough to worry about without having to fear the loss of major markets for our products.

China represents the largest export market for U.S. wheat. This is due to the general warming of relations between the United States and China and the corresponding commitment of U.S. wheat producers to this market. If U.S. agriculture is to remain competitive in the global marketplace, we need access to all markets, most especially one as vast as China. To this end, I respectfully urge you to renew China's MFN status.

Again, I thank you for the opportunity to appear before you today. I will be glad to answer any questions you might have at the appropriate time.

Chairman **Gibbons**. Thank you, Mr. Rivinius. You have a good statement there. We have got a tough parliamentary situation on the floor starting right now, and after consulting with other members of the committee, I think it is best we declare a recess and come back at 1:15.

Could you come back then, Mr. Rivinius? I am sorry we have this situation, but that is one of the hazards of congressional operations.

So, until 1:15, we will recess.

[Whereupon, at 11:45 a.m., the subcommittee recessed, to reconvene at 1:15 p.m.]

Chairman **Gibbons**. The committee will resume its hearings. It is now 1:15. We have heard from Mr. Rivinius.

Mr. Mangione.

## STATEMENT OF PETER T. MANGIONE, PRESIDENT, FOOTWEAR DISTRIBUTORS & RETAILERS OF AMERICA

Mr. **Mangione**. Mr. Chairman and members of the subcommittee, my name is Peter Mangione. I am president of the Footwear Distributors & Retailers of America, the trade association that represents the Nation's chain shoe stores and footwear marketing firms, which include many of the Nation's leading footwear brands.

I appear today to express FDRA's strong support for continued most-favored-nation status for China.

Footwear produced in China is vital to our customers. China is the only source available in the world for most low-cost, high-quality footwear, the kind that cost-conscious low- and middle-income American families depend upon. The non-MFN duties applicable to footwear would render this footwear too expensive for our customers' wants. The footwear sourced in China cannot be produced competitively in the United States or in any other foreign locale.

China is today the largest single supplier of imported footwear to the United States, accounting for about one-third of all U.S. footwear imports. China's shipments are about equal to those imported from Taiwan and Korea combined. Total footwear trade with China in 1990 should exceed $1 billion and amount to some 400 million pair of shoes. The sharp appreciation of the currencies in Taiwan and Korea against the U.S. dollar have made it impossible to produce low-priced footwear in those countries. The average FOB price of shoes made in China is $2.76, while the average for Taiwan and Korea are $6.53 and $11.73, respectively. China is the only alternative available to us.

Continuing of MFN for China is vital to the continuation of the footwear exporting industry in south China. In the case of plastic footwear, one of China's largest exports, duties would go from 6 to 35 percent, almost six times the current MFN duty. The other area of most significant exports to the United States, rubber fabric footwear, accounts for nearly two-thirds of all U.S. imports of these products. Duties here would generally double, going from the current duty of 48 to 84 percent, and in one category, going from 67 to 118 percent.

Nearly all of the footwear we import from China is produced in southeast China, especially the provinces of Guangdong, the area north of Hong Kong and around Guangzhou, and Fujain, the province just west of Taiwan. Much of the footwear from China is produced in joint venture factories, where most of the capital and business input is provided by entrepreneurs from Taiwan or Hong Kong. These efforts have greatly facilitated the importation of components and other materials from Taiwan and Korea necessary for the production of export quality footwear. These factories often pay higher wages than state-owned ones, and offer bonuses for quality and increased output. It is these activities that have made China the leading exporter of footwear to the United States.

Footwear is one of the success stories of the free enterprise experiments in southeastern China. Most shoe factories are new, with up-to-date machinery and good working conditions and attractive wages. The relative prosperity in these areas is in large part due to the development of businesses like the footwear trade.

The elimination of MFN for China would devastate these efforts, throwing hundreds of thousands out of work, dashing all hopes of the expansion of free enterprise in China. Ending MFN would cut off at the roots important free enterprise and democracy growth in the very areas where it is taking hold.

One of the key points I want to leave with the subcommittee this morning is that there is simply no alternative for sourcing footwear outside of China. The low-priced footwear we need cannot be produced in the United States or in any other country in the Orient. Nowhere else has the combination of relatively low prices, large scale, high quality production and business contacts.

If China becomes unavailable because of the end of MFN, the American consumer, particularly the low and middle-income families, who depend on China-produced shoes, will be the chief victims. There will be a scarcity of many low-priced products which simply cannot be sourced elsewhere.

We thank the subcommittee and would be happy to answer questions.

Chairman GIBBONS. Thank you, sir.

[An attachment to the statement follows:]

# FOOTWEAR FROM CHINA: MFN TREATMENT

## FACT SHEET

1. Footwear Duty Rates

| Type | MFN | Non-MFN |
|---|---|---|
| Rubber/Fabric | | |
| under $ 3.01 FOB | 48% | 84% |
| $3.01 - $ 6.50 FOB | 67% | 118% |
| $6.51 - $12.00 FOB | 34% | 59% |
| over $12.00 FOB | 20% | 35% |
| Protective/Rubber | 37.5% | 66% |
| Non-Rubber | | |
| Plastic | 6% | 35% |
| Leather Men's | 8.5% | 20% |
| Leather Women's | 10% | 35% |

2. China is the largest single supply country of shoes to the U.S. In the first quarter of 1990 China accounted for 34% of all imported footwear.

3. China accounts for nearly two-thirds of all rubber fabric imports; 61% in the first quarter of 1990. Since the MFN duties are already so high on these items, predominately low-priced sneakers, especially for children, China is the only country with low enough wages to produce these shoes at prices low income Americans can afford.

4. China accounts for about half of all imports of "low-priced" footwear. In January 1990 China accounted for 43% of all non-rubber footwear imports under $5.00 FOB. Nearly all U.S. sales of "low-priced" non-rubber shoes are imported.

5. The collapse of the U.S. dollar against the hard currencies in Taiwan and Korea, previously the main sources of low-priced shoes, has left China as the only country that can produce low-priced shoes in the huge quantities needed in the U.S.

6. American low income consumers will be the direct victim of non-MFN duties on China made shoes.

**FDRA member companies operate, under the following names, some 20,000 retail and departments nationwide, accounting for about half the nation's shoe sales annually:**

**MORSE SHOE INCORPORATED**
Fayva Shoe Stores
*Bradlees
*Hills
*Shopko
*Allied
*Biggs
*Twin Value

**THE BUTLER GROUP, INC.**
Butler
Maling
Dolcis
A S Beck
Hot Feet
C H Baker
Tip Toe
Ansonia
Joffrey
Butler Int'l.
National
Burton
Florence
Marilyn
Sole Hole
Allens
Grandstand
Shoe Secrets

**GENESCO, INC.**
Johnston & Murphy
Jarman
Hardy
Journeys
Factory-To-You
Flagg
*Mercantile Stores

**SHONAC CORPORATION**
Crown Shoes
*Schottensteins Stores
*Value City Dept. Stores
*Harts Discount Stores
*Glosser Bros. Stores
*Levines Stores
*Valley Fair Stores

**JC PENNEY CO., INC.**

**WAL-MART QUALITY SHOES**
Wal-Mart Stores

**MELDISCO**
*K-Mart
*Payless Drugs
*American Fare
*Makro

**THE KOBACKER CO.**
Picway Shoes
The Shoe Works
Gussini
Patrini
Kathe K

**C&J CLARK AMERICA**
Hanover
Bostonian
Big Sky

**J. BAKER, INC.**
*Ames/Zayre
*Fishers Big Wheel
Parade of Shoes
*Jamesway
*Stuarts
*Caldors

**SHOE CITY, INC.**
Shoe City Stores

**THOM MCAN SHOE CO.**
Thom McAn
B.O.Q.
Fan Club

**SEARS ROEBUCK & COMPANY**

**STANDRAD SHOE COMPANY**

**KINNEY SHOE CORP.**
Kinney Shoes
Foot Locker
Lady Foot Locker
Kids Foot Locker
Athletic X-Press
Champs
Footquarters
Fredelle

**SHOE-TOWN, INC.**
Shoe-Town
Jordache Outlet
*NBO

**J.S. RAUB SHOE CORPORATION**
J.S. Raub Shoes
Shoe Spot

**EDISON BROTHERS STORES**
Chandlers
Leeds
Sacha of London
Wild Pair
Bakers
Burts

**PIC 'N PAY STORES**
Pic 'n Pay
Barett's
Shoe Faktory
Shoe World

**ENDICOTT JOHNSON**
Father & Son
Endicott Johnson

**VOLUME SHOE CORP.**
Payless Shoe Source
Volume Shoe Source

**FISHER CAMUTO CORP.**
9 West

**WEINER ENTERPRISES**
Shoe-Town

*Leased Departments

## FDRA FOOTWEAR MARKETING FIRMS AND THEIR PRINCIPAL BRAND NAMES:

**SANSHOE WORLDWIDE CORP.**
Spalding
McGregor
Dr. Scholl's
Faberge'
U.S.A. Olympic
Thermo-Kid

**MERCURY INTERNATIONAL**
Jordache Ath. Footwear
Franklin Sports
Chic
Snoopy

**E.S. ORIGINALS, INC.**
Voit
Sergio Valente
Flintstones
Coopertone
Gloria Vanderbilt
Safety Lights
I Love Comfort
New York Street Action
Sasson
Regent
Europrep
Easy Going

**PAGODA TRADING**
Jordache
Brittania
Barbie

**BRIGHT STAR PRODUCTS**

**ELAN-POLO, INC.**
Hoops
Finesse
Sweetheart
Playground

**LEIF J. OSTBERG, INC.**
Mitre
Hat Trick
Vision
Huffy

**INT'L. SEAWAY**
Lydico
Intrigue
DP, Fit for Life

**GRAND IMPORTS**
Jordache
Larado
Durango

**MSF CORPORATION**
Excel
Northern Trail's
Kickerino's
Biarritz

**PALLMARK/CHEROKEE**
Cherokee
GI Joe
My Little Pony
No Frills

**OLEM SHOE CORP.**
Aldo Rossi
Mauro Pisani

**CIRCLE S. BOOT**
Paolo Fellicice
Raphael Vittorio

**MILLFELD TRADING**
No Excuses
Chaus
Marc Albert

**INTERSHOE, INC.**
Nickels
Jazz
Paloma
Via Spiga
Glace'e

**B. LEVY & SON**
Pazzo
Positively Peppers
D. Evans
English Walkers
Hampton Park
Jaguars
Soft Ease
Patrick Ewing Sneakers

**TOPLINE IMPORTS**
Wildrice
Pillows
Global Exchange
Cause 4 Alarm

**MARQUESA**
Beija - Flor
Silvana

**CELS ENTERPRISES**
Prima
Chinese Laundry
Cels
Barbaro
Ammano

**C.O. LYNCH**
Panda
Pax
Rod & Gun

**INTER PACIFIC**
Laguna

**ANGEL-ETTS OF CALIFORNIA**
Teenage Mutant Ninja Turtles
Cabbage Patch Kids
Countess

L.A. GEAR

K-SWISS, INC.

REEBOK INTERNATIONAL

LAIRD, LTD.

DYNASTY FOOTWEAR

GREEN MARKET SERVICES

TRADE WINDS IMPORTING
  Nicole

BENNETT IMPORTING, INC.

CYPRESS ENTERPRISES

JIMLAR CORPORATION

LEE INTERNATIONAL

DESA SHOE, INC.

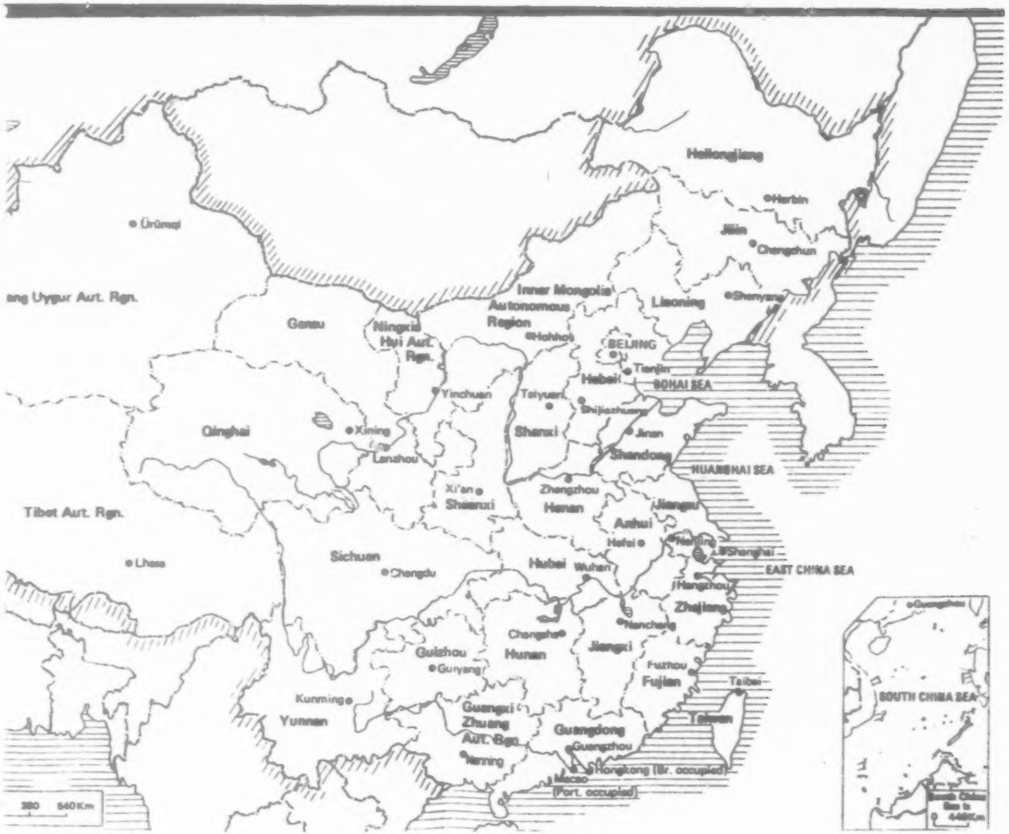
BBC INTERNATIONAL
  Bonjour
  OshKosh
  Playschool

SEBASTIAN IMPORTS

DAYTONA, INC.

FOOWEAR EXPRESS

Contact Kate Bormann, FDRA, (202) 737-5660 for any changes.


Heilongjiang
Harbin
Jilin
Changchun
Liaoning
Shenyang
Inner Mongolia Autonomous Region
Hohhot
BEIJING
Tianjin
Hebei
BOHAI SEA
Shijiazhuang
Taiyuan
Shanxi
Jinan
Shandong
HUANGHAI SEA
Ningxia Hui Aut. Rgn.
Yinchuan
Gansu
Xining
Lanzhou
Qinghai
Xi'an
Shaanxi
Zhengzhou
Henan
Jiangsu
Anhui
Hefei
Nanjing
Shanghai
EAST CHINA SEA
Hangzhou
Zhejiang
Hubei
Wuhan
Nanchang
Jiangxi
Fuzhou
Fujian
Taibei
Taiwan
Changsha
Hunan
Sichuan
Chengdu
Guizhou
Guiyang
Kunming
Yunnan
Guangxi Zhuang Aut. Rgn.
Nanning
Guangdong
Guangzhou
Hongkong (Br. occupied)
Macao (Port. occupied)
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Tibet Aut. Rgn.
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380 540Km
SOUTH CHINA SEA

Chairman **Gibbons**. Mr. Miller.

## STATEMENT OF DAVID MILLER, PRESIDENT, TOY MANUFACTURERS OF AMERICA, INC.

Mr. **David Miller**. Good afternoon.

My name is David Miller, and I am the president of TMA, the Toy Manufacturers of America, an association representing more than 230 manufacturers and importers of toys. TMA members account for 90 percent of annual toy sales in the United States.

The toy industry is a $13 billion business at retail, $9 billion at wholesale. Of the $6.1 billion of toys imported into the United States, $1.7 million, or 25 percent, is imported from China, and approximately $1 billion of the amount imported from China passes through Hong Kong.

Based upon discussions with close to 100 TMA members, and my experience in the toy industry of over 23 years, I can tell you that the toy industry will be devastated if MFN status for China is revoked.

Mr. Chairman, I practiced my 5-minute speech all last night, to make sure, but there were comments made by some of your distinguished colleagues this morning that concern me, and that I would like to answer off the cuff.

Chairman **Gibbons**. Thank you.

Mr. **David Miller**. If I run out of time, please let me know.

Chairman **Gibbons**. We will.

Mr. **David Miller**. The toy industry is not, and I think not anyone in industry is condoning the acts of the People's Republic of China, but as a businessman, and talking from a business point of view, there are implications to placing conditions on MFN status that is tantamount to withdrawal of MFN, and I don't believe that the consequences of that have been talked through entirely.

No one running a company today importing from China can risk his company's future on the loss of MFN, based upon foreign policy considerations. It is a reality. Whether there are overriding considerations or not is your unenviable job.

But I must point out, if you have the responsibility for the future of your employees and the capital that has been invested in your business, deliberations like this, and placing political considerations as a condition of doing business is unacceptable to a prudent businessman.

And I am not talking just of the toy industry, but of a mindset in American industry. You must understand, also, that there are implications in Eastern Europe about the debate now going on in the Congress, and I don't question the right of the Congress to hold that debate, but it does have an impact.

Accordingly, the discussions that are going on today have already registered in Beijing. Congress is sending a message to China; it is very clear, and if it is not universal, it is the overwhelming sentiment of not only the Congress, but the people of this country.

We are not happy with what went on in China. In effect, the Congress has already created, and the President also, a mindset in American business that will result in a decline in business in

China next year, regardless of whether MFN is passed or it isn't passed.

I know in the toy industry that there has been no new investment since Tiananmen Square. I don't think there will be investment until the air is cleared, until there is another environment. And as desirable as China is today as a source of supply, uncertainty is more undesirable to business anywhere in the world.

Accordingly, we earnestly recommend to this committee that MFN be approved without qualifications, because the uncertainty it would create is tantamount to taking it away.

I would like to make one other point, too, and I wish Mr. Schulze was here to respond so I would have a chance to expose the issue further. While it is true that the naked hourly rate in China for labor can be as low as 18 cents, the average wage in China paid by the toy industry exceeds $1 an hour.

Moreover, the duty that you pay bringing products into the United States includes not only labor, but overhead, profit and material costs. I don't know what it is in the shoe industry, but in the toy industry, material costs range between 60 and 75 percent of the cost of the product as it is entered into the United States.

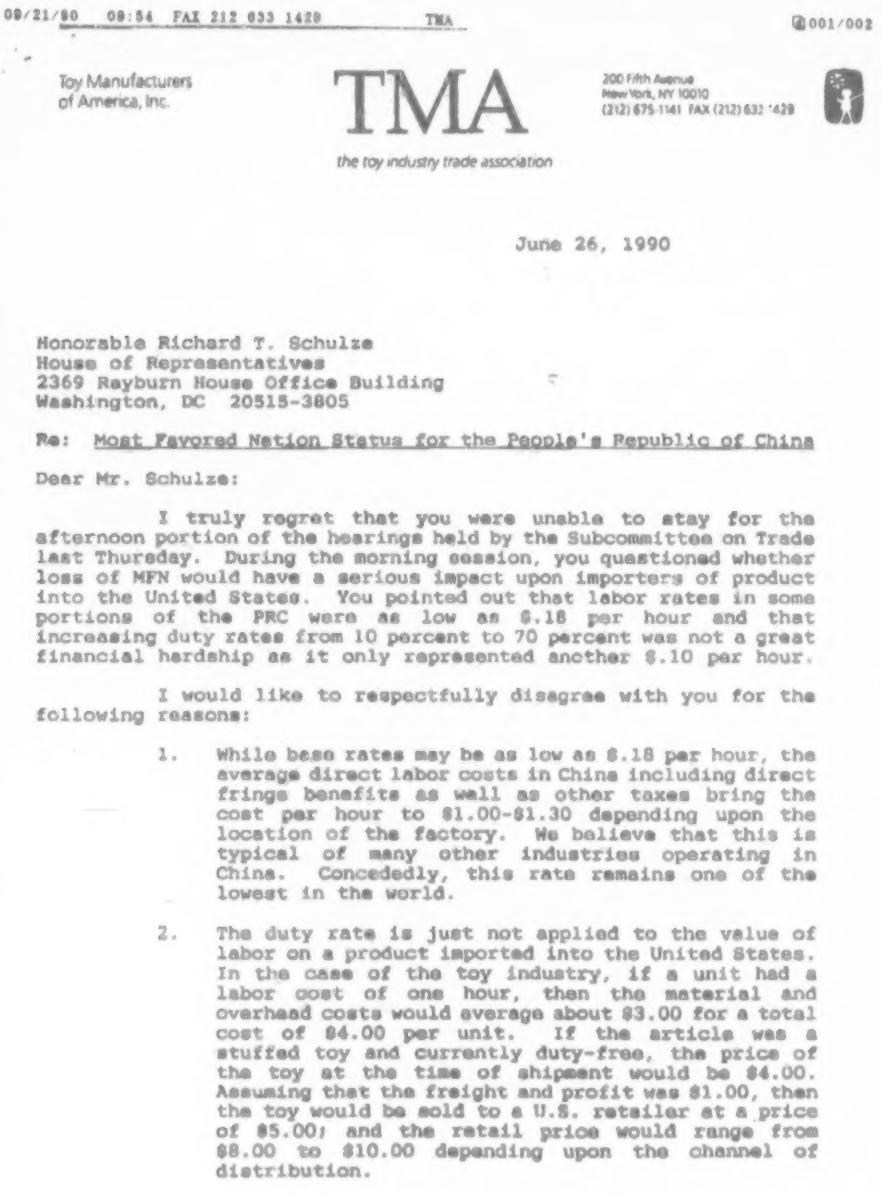
Accordingly, on a gross basis, and because duty for toys ranges from zero to 12 percent, it would be approximately a 60-percent increase in duty if MFN were not available. We are talking about over $1 billion more in the cost of the entry of product from China in 1990.

If you take it on a retail basis, and an item like the Cabbage Patch doll that could sell for $15 or $20 in the United States, it might be costing $30 or $35. That is the reality. It is not 36 cents.

And I think Mr. Schulze has just taken a number that has not been qualified, and I intend to write to the committee and add that to my record, with your permission.

Chairman GIBBONS. Certainly, we would be glad to receive your communication.

[The information follows:]



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Toy Manufacturers
of America, Inc.

TMA
the toy industry trade association

200 Fifth Avenue
New York, NY 10010
(212) 675-1141 FAX (212) 633 1429

June 26, 1990

Honorable Richard T. Schulze
House of Representatives
2369 Rayburn House Office Building
Washington, DC 20515-3805

Re: Most Favored Nation Status for the People's Republic of China

Dear Mr. Schulze:

I truly regret that you were unable to stay for the afternoon portion of the hearings held by the Subcommittee on Trade last Thursday. During the morning session, you questioned whether loss of MFN would have a serious impact upon importers of product into the United States. You pointed out that labor rates in some portions of the PRC were as low as $.18 per hour and that increasing duty rates from 10 percent to 70 percent was not a great financial hardship as it only represented another $.10 per hour.

I would like to respectfully disagree with you for the following reasons:

1. While base rates may be as low as $.18 per hour, the average direct labor costs in China including direct fringe benefits as well as other taxes bring the cost per hour to $1.00-$1.30 depending upon the location of the factory. We believe that this is typical of many other industries operating in China. Concededly, this rate remains one of the lowest in the world.

2. The duty rate is just not applied to the value of labor on a product imported into the United States. In the case of the toy industry, if a unit had a labor cost of one hour, then the material and overhead costs would average about $3.00 for a total cost of $4.00 per unit. If the article was a stuffed toy and currently duty-free, the price of the toy at the time of shipment would be $4.00. Assuming that the freight and profit was $1.00, then the toy would be sold to a U.S. retailer at a price of $5.00; and the retail price would range from $8.00 to $10.00 depending upon the channel of distribution.

If the same toy were subject to a 70 percent duty as a result of the loss of MFN, the price of the toy to the retailer, assuming the same freight costs and profit of $1.00, would be $7.80 resulting in a retail price of between $11.00 and $15.00.

I think that you would agree that such a price increase would have an impact both on the consumer and the importer.

3. As I pointed out in my testimony, we have more than ten toy companies who procure 100 percent of their product from the PRC. Unfortunately, this production cannot be shifted into other countries without a year or two to develop the infrastructure and manufacturing skills necessary. Hypothetically, if you have a company with sales of $3 Million a year importing $1.5 Million and faced with an increase in duties from 10 percent to 70 percent, the cost of the product would increase by $900,000. Since profit margins in toy companies represent less than 10 percent of sales pretax, a small $3 Million company would be wiped out by the imposition of $900,000 of additional expense.

Permit me to reiterate the point made by virtually every business representative at the hearings - that we do not condone the political repression in the PRC, but we respectfully suggest that using MFN as a foreign policy lever has not worked in the past, will not work with the PRC, and will do immeasurable harm to U.S. businesses which have acted in reliance upon ten years of U.S. governmental encouragement.

If you would like, I will be happy to meet with you to discuss this further.

Sincerely,

David A. Miller

David A. Miller
President

DAM:lg

Mr. **David Miller**. I can give you another example, Mr. Gibbons. If you are a toy company importing $30 million from China, and the duty rate rises from zero, as it might with Cabbage Patch to 70 percent, you are talking about adding $21 million of cost to the $30 million in bringing a product in. And that is not something that can be overcome.

And in fact, if you are talking about a $200 million a year company with a normal profit margin, you would wipe out that entire profit margin in such a transaction.

So, when we say that the impact is devastating, I believe that it is true.

There is one other point that is very important, and, again, I wish that Mr. Schulze were here so we could discuss it. In the toy industry, there will be a significant number of our members put out of business before the end of this year if MFN is not extended.

I have been in touch with the presidents of 10 toy companies who indicate that because 100 percent of their product comes from the People's Republic of China, they will be forced out of business prior to the end of this year.

I don't know if we have any other members like that, but I do know that these 10 members employ more than 1,000 people in the United States. And we are not alone in the toy industry; there are many other industries that would be affected the same way we are, and we respectfully ask whether the trauma to the thousands of American families who will lose their jobs is fair, measured against the conjectural benefits we might gain from taking MFN away from China.

In summary, we strongly believe that revocation of MFN is the wrong response to a reprehensible act of the Chinese Government. Such actions will hurt all U.S. companies who have acted in reliance on U.S. policy, which encourages increased globalization.

It results in substantial layoffs of American workers. It will escalate costs for U.S. consumers. It will take Christmas away from some children, and it will totally devastate our industry.

Thank you, sir.

Chairman **Gibbons**. Thank you, Mr. Miller.

I am sure Mr. Schulze will get your testimony and will respond in some fashion to it.

[The statement of David Miller follows:]

## STATEMENT OF DAVID MILLER, PRESIDENT TOY MANUFACTURERS OF AMERICA, INC.

Good morning. My name is David Miller and I am the President of the Toy Manufacturers of America, a trade association representing more than 230 manufacturers and importers of toys, games and dolls. TMA members account for an estimated 90 percent of annual toys sales in the United States. The toy industry provides American children with the most creative, diverse, and affordable toys in the world. While the United States consumes approximately one-third of all toys, the American toy industry invents, designs, engineers, and creates the marketing and advertising concepts for more than half of world consumption. World consumption of toys is more than five billion units a year.

Before assuming the presidency of TMA, I was the owner and Chairman of Eden Toys, Inc., a U.S. toy manufacturer and importer probably best known for Paddington Bear, Beatrix Potter's Peter Rabbit, and a host of stuffed toys for younger children. In my 23 years in the toy industry, my company produced and sold over 50 million toys; and I have seen the industry evolve into a highly internationalized global business for companies both large and small. I can tell you from first-hand experience that we are a resourceful industry, one which is aggressive and willing to respond to changing conditions and international trading rules.

Because of the highly competitive nature of our industry and the need to sell toys for children to American parents and care givers at affordable prices, virtually all American toy companies have turned to offshore sources of supply in developing countries located around the world. We have been doing this since the end of the second world war. We were one of the first industries to source product from Japan; and when Japan's economy began to take off, we moved to Hong Kong, Korea and Taiwan for our sources of production. While low-skilled U.S. production employment has declined since the fifties, employment in product development, design, quality control, production engineering, marketing and advertising has increased in the United States. Today the toy industry's U.S. employees are medium and high-wage earners.

The toy industry is a $13 billion business at retail ($9 billion at wholesale). Of the $6.136 billion toys and related articles imported into the United States, $1.658 billion is imported from China. Approximately $1 billion of the amount imported from China passes through Hong Kong.

Based upon discussions with close to 100 TMA members in the United States and my experience in the toy industry over 23 years, I can tell you that the toy industry will be devastated if MFN status for China is revoked. Permit me to elaborate.

Before MFN status was accorded to the PRC ten years ago, toys, games and dolls exported from China were subject to a Column 2 duty equal to 70 percent of the wholesale price. As a result, there were no imports of toys from China. Toys, games and dolls from China, as well as from virtually all non-communist countries are now dutiable at Column 1 rates ranging from 12 percent (non-stuffed dolls) to 6.8 percent (toys) to free (certain stuffed toys).

Since 1980, and in reliance upon the stated foreign and trade policies of the United States, we have invested heavily both in material and personnel in the PRC to create production facilities there. Today, toy products from the PRC account for 25 percent of all toys imported into the United States. Moreover, imports from China represent 55 percent of all doll imports (9502, HTS) and 40 percent of traditional toys imports (9503, HTS). These facts vividly demonstrate the considerable stake that the U.S. toy industry has in the continuation of MFN duty treatment for the PRC.

Thus, if duty rates on Chinese toys are increased from current levels (free to 12 percent) to 70 percent, the toy industry will be placed in an impossible position. While historically we have proven ourselves to be resourceful, alternative sources of supply in other developing countries cannot be found overnight, and we will not be able to obtain sufficient quantities of our product elsewhere until well into 1992. Since 60-70 percent of our products are purchased for Christmas, Christmas 1990 would definitely be lost; Christmas 1991 quite possibly would be lost as well.

Some have suggested that we might turn to other seemingly attractive countries in which to locate production facilities. However, few countries have the established infrastructure and sufficiently large work forces necessary to meet our needs. For example, any one of the four largest TMA members alone could tie up all of the existing production facilities in Thailand. We are developing production in other countries, but it takes infinite time, patience and perseverance, particularly because of high U.S. standards for quality and safety.

The loss of our Chinese production facilities also would mean the loss of our Hong Kong plant managers who we have worked to develop first in Hong Kong and then in mainland China for over 25 years. One of the reasons we have succeeded so well in China is our Hong Kong partners and their personnel. Our close business ties in Hong Kong lead us to the conclusion that loss of MFN status for China will be even more devastating to the long-term viability of Hong Kong than any other act of the United States.

The effect of increasing duty rates from their current levels to 70 percent will have a significant effect on the price of toys in the United States. Competitive conditions in the toy industry will not allow us to absorb the increased duty, and when we pass the additional cost on to our customers, they will simply either refrain from purchasing toys at two or three times their current prices or purchase significantly smaller quantities. As is all too often the case, the real losers will be children, especially those whose parents are least able to afford to spend money on these items.

Finally, and more significant to us in the toy industry, is the fact that a number of TMA members will be put out of business before the end of 1990 if MFN status is revoked. I have been in touch with the presidents of ten toys companies who indicate that because 100 percent of their product is produced in China, they would be forced out of business prior to the end of the year. I cannot say at the present time how many more TMA members are in this category, but I do know that those ten members employ more than 1,000 people in the United States. Moreover, the toy industry is not alone in its loss of U.S. jobs. There will be many other industries, both importers and exporters. We respectfully ask whether the trauma of job loss is fair when measured against the conjectural impact denial of MFN treatment might have upon the present government of China.

Please do not mistake my remarks as a disregard for the issue of human rights in the People's Republic of China. There is no question that the Chinese Government's actions deserve the strongest condemnation, but taking jobs away from 3,000,000 Chinese - which surely will be the effect of revoking MFN - is not going to reform a repressive government. Sending them back to the farms is not furthering human rights; hurting Hong Kong is not protecting human rights; and what of the Americans who will go jobless?

It is TMA's strong belief that the presence of U.S. companies in China has been, and will continue to be, a major factor leading to the democratization and reform movement there. Indeed, the economic strength of the South China region has given the leaders in that region greater autonomy and leverage in dealing with Beijing, which they almost certainly would lose if all those production facilities are abandoned.

Our observations about China are not based upon recent and surface experiences in the PRC. We have been in the Orient for more than 40 years, in Hong Kong for over 30, and in the PRC for 10. There are close business and personal ties that have given us unique insight into the events taking place in the PRC, and we are talking about our close friends in many instances. Several weeks ago, I was visited by a delegation of South China business executives and government officials. They confirm the observations TMA makes here today.

In summary, we strongly believe that revocation of MFN duty status is the wrong response to the reprehensible acts of the Chinese leadership. Such an action will hurt all U.S. companies who have acted in reliance upon a U.S. policy encouraging increased globalization, result in substantial layoffs of American workers, escalate costs for U.S. consumers, take Christmas away from millions of American children, and totally devastate the $13 billion American toy, doll, and game industry. It also is unlikely to serve as an incentive for the PRC Government to revise its policies.

Chairman GIBBONS. Mr. Kittredge.

## STATEMENT OF FRANK D. KITTREDGE, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. KITTREDGE. Thank you, Mr. Chairman.

My name is Frank D. Kittredge, president of the National Foreign Trade Council, an association of about 500 companies involved in international trade and investment. A significant number of our member companies maintain a business presence in the People's Republic of China.

American companies doing business in China share fully the outrage of the American public and the Congress at the repression and backward direction taken by the Chinese Government since its violent suppression of the student-led prodemocracy movement in June of last year.

We support the measures taken by President Bush last summer to give expression to this country's outrage. We believe, however, there are compelling reasons not to terminate reciprocal nondiscriminatory trade with China, that is, most-favored-nation status. Key among these reasons are the following:

One, reform and human rights progress in China are served by the presence of American companies, which over the past decade have built extensive links to progressive, market-oriented elements in China. U.S. business ventures there have demonstrated more dramatically than any rhetoric the value of a free society and a market economy. These links will be seriously disrupted if MFN status is withdrawn.

Two, withdrawal of MFN would almost certainly lead to retaliation by China against American exports to China. U.S. goods and services and U.S. investments would be frozen our of the Chinese market. A National Foreign Trade Council sampling of the anticipated impact on member companies found that among only nine selected companies, concentrated in consumer products, chemical, aerospace, automotive, pharmaceutical, and heavy equipment sectors, over $11 billion in sales were seen to be at risk.

Even more damaging, because this would be a unilateral action, America's trade competitors would gain an important long-term advantage. Further, American consumers would pay higher prices for a broad range of products imported in whole or in part from China.

Three, reciprocal most-favored-nation status is a fundamental basis for U.S. international commercial relationships, and does not imply U.S. approval of the domestic policies of our trading partners. Indeed, the United States has reciprocal MFN with over 170 countries, and there are several of these with whom the United States has serious political disagreements, that is, Libya, Syria, Iraq, and South Africa.

Four, once withdrawn, the reinstatement of MFN could be a difficult and lengthy process. The current bilateral trade agreement would lapse and would have to be reinstated or renegotiated. Such an unpredictable trade environment makes long-term planning and strategy development nearly impossible.

Five, withdrawal of MFN status from China would have a devastating effect on Hong Kong, just at the time when Western support for the continued existence of its free-market economy is so important.

It cannot be emphasized too strongly that it is not in the United States national interest to weaken the Hong Kong economy in the period leading up to the 1997 expiration of British rule.

Mr. Chairman, with economic security becoming every bit as important as military security, the United States cannot afford to cavalierly exclude itself from such important developing markets. Surely our trading competitors will not, and that is just the point.

American commercial interests must be allowed to compete fairly for these substantial international markets, while other ways are found to express our justifiable dissatisfaction with political and human rights abuses.

The National Foreign Trade Council therefore strongly recommends a simple 1-year extension of MFN status for China.

Thank you.

[The statement of Mr. Kittredge follows:]

## STATEMENT OF FRANK D. KITTREDGE, PRESIDENT
## NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. Chairman, Members of the Committee:

My name is Frank D. Kittredge, President of the National Foreign Trade Council, an association of about 500 companies involved in international trade and investment. A significant number of our member companies maintain a business presence in the People's Republic of China.

The National Foreign Trade Council supports a one-year extension of most-favored-nation (MFN) status with China. The American business community engaged in commerce with China shares fully the outrage of the American public and the Congress at the repression and retrograde direction taken by the Chinese government since its violent suppression of the student-led pro-democracy movement in June of last year. We support the measures taken by President Bush last summer to give expression to this country's outrage. We believe, however, that there are compelling reasons not to terminate the reciprocal non-discriminatory treatment of U.S.-China trade.

There are two major reasons for which we favor an extension of MFN. The first is that reform and progress on human rights in China are served by the presence of American companies, by the economic development which proceeds from China's participation in international markets, and by the links that have been forged between American companies and China's most forward-looking elements. The second is that for the U.S. to revoke China's MFN status, uniquely among their trading partners, would seriously disadvantage U.S. companies -- and in some cases exclude them from China's market for a considerable period of time during which the Chinese government and its policies may very well change.

### Company views of the impact of withdrawal of MFN from China

A National Foreign Trade Council sampling of the anticipated impact on member companies of withdrawal of MFN found that among only nine selected companies (concentrated in consumer products, chemicals, aerospace, automotive, pharmaceutical, and heavy equipment sectors) over $11 billion in sales were seen to be at risk. Within this group, estimates of lost sales ranged form 35% to 100%.

Comments on the impact of revoking MFN included:
-- "most, if not all, of our business would be lost"
-- "sales and investment activities involving China are a key component of our long-term business strategy in the Asia-Pacific region; revoking China's MFN status would seriously impair the overall business environment"
-- "because of the considerable proportion of China's share of our world market share, the loss could be significant to the whole company and would be to the benefit of our French-based competition"
-- "should China lost MFN status our average duty rate would rise from about 11% to approximately 82%. New sources would have to be found if MFN is discontinued"
-- "we estimate that 35% of our future sales in China would be lost if MFN were revoked"

### Most-favored-nation status

Reciprocal most-favored-nation status is a fundamental basis for the United States' international commerical relationships. Reciprocal non-discriminatory trade does not imply U.S. approval of the domestic policies or regimes of our trading partners. Rather it is an important pre-condition for the development of commerical relationships which often have positive political, human rights -- as well as economic -- consequences.

Non-discriminatory trade is a building block of long-term relationships between economies and societies, a part of a framework, and therefore not appropriately used for short- or medium-term political purposes. Above all, it insures that American companies participate in a foreign market on the same terms as our foreign competitors.

The U.S. has reciprocal MFN with over 170 countries the list of countries with whom the U.S. does not have reciprocal MFN is very short and significantly does not include countries such as Libya, Iran, South Africa and Syria, with whom the U.S. has had profound policy conflicts and has even imposed economic sanctions.

## U.S.-China Reciprocal MFN Status

It was, therefore, in recognition of the long-term importance of the United States' relationship with China and the significance of China as a trading partner that the U.S. in 1979 negotiated a trade agreement with China which entails reciprocal MFN. Since that agreement came into force, the commerical relationship between the two countries has grown dramatically. Hundreds of companies have relied on this bilateral trade agreement as they forged their way into what is not only the world's largest, but perhaps most difficult untapped domestic market. In 1989 two-way trade reached nearly $18 billion, up from just under $8 billion only four years earlier. At the same time, investment in China by American companies now amounts to over $4 billion.

This economic relationship has resulted in important business and personal links with progressive and market-oriented elements in China and it should not be severed on the basis of adverse political developments which may very well not persist into the long-term. In short, there is a difference between making the initial decision to agree to reciprocal MFN and deciding to terminate MFN after a decade of economic activity.

## Consequences of Withdrawing MFN Status

The long-term economic and political costs of withdrawing China's most-favored-nation status considerably outweigh the possible benefits. Because these costs have been ably reviewed by others, I will summarize the most important ones briefly.

The immediate result of withdrawing China's MFN status would be a dramatic rise in the tariff rates on imports into the United States. These rates would automatically revert to the nearly prohibitive rates of the Smoot-Hawley trade law of 1931. Consequently tariffs on U.S. imports from China would rise as an average from the current 9% to over 50%, with concomitant higher prices for American consumers. Relatively inexpensive Chinese imports will be replaced at higher cost to the U.S. economy.

A second immediate consequence would be commensurate retaliation by China against U.S. exports, for most of which there are available alternative suppliers. American companies would therefore suffer by virtue of their products being priced at non-competitive levels. In addition, because China faces choices among competing suppliers, they can simply switch their purchases to companies from countries which have not withdrawn MFN.

U.S. exports to China fall into categories which are intensely competitive. In 1989, for example, 77% of U.S. exports to China were concentrated in the area of industrial supplies and materials and capital goods. These are categories in which the U.S. ran a bilateral deficit with Japan in 1989 of nearly $18 billion, as well as a deficit of $1.3 billion with West Germany. American agricultural exports, especially wheat, are another 20% of U.S. exports and would be put in jeopardy by withdrawal of MFN.

Other witnesses have provided the Committee with a detailed account of the devastating impact on the economy of Hong Kong that would result from U.S. withdrawal of MFN. About 70% of Chinese exports to the United States are shipped through Hong Kong. It cannot be emphasized too strongly that it is not in the U.S. national interest to weaken the Hong Kong economy in the period leading up to the 1997 expiration of British rule.

In addition, it stands to reason that reductions in Chinese foreign exchange from which to import from the U.S. would result in reduced imports from the U.S., even if all other things were equal.

China's merchandise trade surplus with the United States reached $6 billion in 1989 and in the first months of 1990 has been running at an even higher rate. Surely the loss of the major portion of this surplus, which would inevitably follow a loss of MFN status, would result in economic dislocation in China and would be unwelcome to the Chinese authorities. However, we agree with those who argue that the loss of China's beneficial trade relationship with the U.S. would not necessarily cause the current Chinese leadership to liberalize their internal policies, and might make them retrench even further.

### Impact on U.S. trade facilitation programs

Were a presidential waiver of the Jackson-Vanik provision to be disallowed by the Congress, the impact on commercial relationships would go beyond tariff treatment to include the operations of the Export Import Bank and the Overseas Private Investment Corporation.

While Eximbank was prohibited from using its programs in China by congressional sanctions in December of 1989, the President has waived that prohibition. Eximbank currently has outstanding offers for China totaling $189.6 million in loan value, including support for projects in the electric power, petrochemical, oil and gas and food processing sectors. Eximbank also has currently pending applications for China totaling $306.8 million in loan and guarantee value in a number of sectors including electric power, communications and petrochemicals. Withdrawal of MFN for China would prohibit Eximbank from extending direct credits or credit guarantees.

The Overseas Private Investment Corporation was active in supporting U.S. companies investments in China before the Congress prohibited them from doing so in the 1989 sanctions. These sanctions can be waived by the President, however, but a withdrawal of MFN would preclude such presidential action.

Since export finance and investment guarantee programs have played an important role in helping U.S. companies compete in China, their exclusion would further disadvantage U.S. businesses there, since our European and Japanese competitors offer fully supported programs.

### Difficulty of reinstating China's MFN status

It is very likely that if Congress disapproves a presidential waiver of Jackson-Vanik, resulting in withdrawal of MFN for China, there would be a lag of some considerable time, perhaps even several years, before reciprocal MFN could be restored even if improved political circumstance warranted it.

The existing trade agreement between the U.S. and China commits both to "accord each other most-favored-nation treatment with respect to products originating in or destined for the other contracting party" and goes on to say that "if either contracting party does not have domestic legal authority to carry out its obligation, either contracting party may suspend application of this agreement." Once suspended, reinstatement of the trade agreement would have to be requested by the U.S. or China. Because the trade agreements expire in early 1992, it would be very probable the U.S. and China would have to negotiate a new trade agreement. Obviously a new trade agreement would require approval by the Congress.

No matter how powerful the commercial and political incentives on both sides, it is hard to imagine that either government would hastily request reinstatement of a new trade agreement.

Certainly withdrawal of MFN greatly reduces flexibility on the part of the U.S. government in responding quickly to possible positive changes in China.

Conclusion

The National Foreign Trade Council is opposed to using bilateral or multilateral trade arrangements such as MFN to attempt to affect political behavior. Because MFN is one of the most basic and -- heretofore -- least politicized international trade arrangements, to withdraw it, especially from a country as significant as China, could set a pernicious precedent. We strongly urge that Congress not disapprove a presidential certification of China's eligibility and that our legitimate outrage at the recent behavior of the Chinese government be expressed in other, more appropriate ways.

Chairman GIBBONS. I want to thank all of you for very fine statements and for your interest in this subject at this hearing. I thank you for coming, waiting, and—just to explain—my colleagues are tied up on the floor in the flag issue.

Some are in the flag, some are out of the flag. Some are saluting. Some are standing at attention, and that is our problem right now on the floor. But we have a very serious problem here before us.

I think every American wants to send a very serious and concerned message, just as you do, to the governing forces in China—that we certainly want, and want very deeply, a greater respect on their part for their own people and a greater toleration of diversity in their own society.

It has been heartening for me to see that the congressional witnesses here this morning all say it would be a mistake to cut off MFN status. Some, I think, want to put conditions on China's future MFN status, and I am wondering whether some of those conditions may amount to, as one witness put it yesterday, 1-year plant closing notices.

What is your view on that? Could you tell me?

Mr. KITTREDGE. If I might, Mr. Chairman, I think Roger Sullivan's comment was a very good one. It is tantamount to notification of a plant-closing 1 year later. It seems to me that putting severe conditions, or any conditions on MFN simply puts us, a year later, in a worse box than we are in today. And not that we would presume to advise the Congress, but it seems that would be a much more difficult position to handle than the one we have today.

The point was made over here already in the deliberations that have gone on, there has been a very strong message given to the Chinese that they can't help but receive, and that in itself has been very useful. But certainly our association's view is that MFN status is not the vehicle to use to try to reform the Chinese.

Mr. MANGIONE. I agree, Mr. Chairman. I think Mr. Miller put it very well. Certainly the conditions that were discussed this morning suggests they probably couldn't be met unless there was a change of government in China, which we all agree is possible but unlikely in the next year. It would be extremely difficult to continue any kind of activity in China once we had that cloud hanging over our head.

Chairman GIBBONS. What would happen to you, Mr. Rivinius?

Mr. RIVINIUS. I think just the fact Congress is talking about it is a message enough. I don't think we need to come up with any ultimatums that they need to come to to continue MFN. As I say—stated in my statement, that we have been—as the American farmer, we have been geared to produce to be competitive and to export. As weak as China is, she is our number one customer, and we need to keep that door open.

Chairman GIBBONS. So many members say China will buy the wheat from us because they have to. Is that so?

Mr. RIVINIUS. No, we have competitors of Argentina, Australia, European Community, Canada, that are just sitting there waiting for us—as was stated earlier this morning, shooting ourselves in the foot. We have done that in 1986. I have gone through that as a farmer. And we came out of some good years going into 1980, and the 1980s haven't been very good to agriculture.

So it would be a much more serious blow if we did something that was negative this time around to agriculture.

Chairman **Gibbons**. Those countries have sufficient surplus wheat in order to sell?

Mr. **Rivinius**. They are willing to sell, sell, sell. We are the only people that store anything.

Chairman **Gibbons**. Mr. Miller.

Mr. **David Miller**. I agree with the preceding speakers. It would be somewhat easier for the importers from China, because there would be a year's grace. But for those exporting from the United States, I think retaliation would take place right away. It certainly is awfully risky.

Chairman **Gibbons**. Thank each of you for coming and for helping us with this. We will need more help from you.

We have another panel now. From the Puebla Institute in Washington, Amy Sherman; Mr. Li of the Medical College of Wisconsin; Mr. Cohen; Professor Deng of Bowdoin College; and a member of the Human Rights Group, Mr. Feinerman.

Ms. Sherman.

### STATEMENT OF AMY L. SHERMAN, RESEARCH ASSOCIATE, PUEBLA INSTITUTE, WASHINGTON, D.C.

Ms. **Sherman**. Thank you, Mr. Chairman.

The Puebla Institute is a Washington-based lay Catholic human rights group. This month, we released a new report on the suppression of religious freedom in China that concludes that persecution of independent religious believers has dramatically increased over the last 18 months.

We have documented the names and cases of 62 Christians, 48 Catholics—including 13 bishops—and 14 Protestants, currently deprived of liberties in China for purely religious reasons. Mr. Chairman, I would like to request that our complete list of religious prisoners be entered in the record of these hearings.

Over the past year, scores of churches have been closed and hundreds of Chinese Christians arrested and detained. Four that we know of—two Catholics and two Protestants—have recently died in prison. The Protestants, a father and a daughter, were tortured to death. To date, this serious abuse of human rights has received scant public attention. We are grateful for today's opportunity to shed light on it.

I refer the committee to my written statement for background on Chinese religious policies. In short, Chinese Christians are required to join Government-controlled religious organizations, the Patriotic Catholic Church for Catholics, and the Three Self Protestant Movement for Protestants. It is largely for engaging in religious activities independent of these organizations that Christians are harassed and persecuted.

Yet, despite the Government's repeated campaigns, independent religious activity continues throughout the mainland, and believers number in the tens of millions. In fact, the underground Christian churches are perhaps the must sustained dissident efforts in the People's Republic of China, surviving and even flowering throughout various Communist purges. The current crackdown predates

Tiananmen Square, as the April 1989 bloody police rampage of the Catholic village of Youtong graphically demonstrated.

Of the 48 Catholics on Puebla's list, 19 priests have been arrested since December 1989 alone. This crackdown is directly linked to the democratization of Eastern Europe. Beijing holds the Vatican responsible for instigating and nurturing the trend of liberalization in the Soviet bloc.

At a Congress of the Chinese Communist Party in December 1989, the Pope was specifically accused of holding reactionary and subversive intentions toward China. As a result, Chinese Catholics maintaining loyalty to the Vatican have been singled out for particularly harsh treatment.

Ten priests on Puebla's current list had already completed sentences of up to 25 years before being rearrested in the past few years. One is Father Anthony Zhang Kangyi, an acclaimed World War II hero with the Italian resistance. Now 83, Father Zhang had already spent 30 years behind bars since 1949. He was rearrested in December 1989 and is now imprisoned.

Father Joseph Jin Dezhen is serving a 15-year sentence for opposing the Government's abortion policy. Father Zhang Shentang is serving a 17-year sentence for printing religious literature without Government authorization. Father Zhu Baoyu is serving a 10-year term of taking Catholics on a pilgrimage.

Bishop Paul Liu Shuhe, whose sentence to labor camp has been commuted to house arrest because of failing health, was convicted for possessing two illegal sermons and for owning a typewriter. And Bishop Joseph Fan Xueyin, who has already served 21 years behind bars, is currently under house arrest for ordaining priests of the underground church.

Persecution against Protestants has also dramatically increased. In December 1989, the Chinese Government began a political purification campaign to wipe out so-called six evils, including conducting superstitious activities, and is using it as a basis for a renewed purge against Protestants, particularly those active in house-churches, secret meeting places where underground Protestants gather for worship.

The Puebla Institute has documented the cases of 14 known Protestant religious prisoners, among them Mai Furen of Guangdong Province. Now in his late seventies, Mai is serving a 12-year sentence for distributing Bibles and having contacts with foreign churches.

Sun Ludian, another evangelical, has been condemned to 12 years in a labor camp. Xu Yongze, an evangelist who is primarily responsible for starting over 3,000 house-churches, was arrested in 1988 in Beijing after he attempted to attend a service led by Billy Graham. In addition to these cases, Puebla also has reports of whole congregations being detained, interrogated and fined amounts ranging from 1 month's to 1 year's salary.

This week, I interviewed two Chinese evangelical Christians who together spent 30 years in prisons and labor camps. They report, and their experience is typical, of being confined in small cells with hardened criminals who abused them. The food is extremely poor, consisting of a watery rice soup, dried onion skins and corn husks. Many prisoners supplement their diet by catching and eating the insects in their cells. Female prisoners perform 10 hours a day of hard labor; the men work longer. Sometimes prisoners are punished for saying grace or reading the Bible.

To conclude, the situation of Christians in China, always tenuous, has taken a decided turn for the worse.

We believe the United States should pressure the Chinese Government to guarantee in practice what it guarantees on paper in its own founding documents: Freedom of religion for all citizens. We urge Congress to condition MFN to China on concrete progress in human rights, including specifically the restoration of freedom for persecuted religious believers.

We urge Congress to take speedy action, for many of the Christians now imprisoned are elderly and haven't much time. Already this year, Father Philip Wang Ziyang died at the age of 90 after behind behind bars for 30 years.

Thank you very much, Mr. Chairman. That concludes my statement.

Chairman GIBBONS. Thank you. The story you tell is shocking and horrible to all of us.

[The statement of Ms. Sherman follows:]

# STATEMENT OF AMY L. SHERMAN, RESEARCH ASSOCIATE
# THE PUEBLA INSTITUTE

## BEFORE THE SUBCOMMITTEE ON TRADE
## COMMITTEE ON WAYS AND MEANS
## U.S. HOUSE OF REPRESENTATIVES

## HEARINGS ON THE EXTENSION OF MFN STATUS TO THE PEOPLE'S REPUBLIC OF CHINA

JUNE 21, 1990

## Introduction

Based in Washington, D.C., the Puebla Institute is a a lay Catholic human rights group defending religious freedom for all peoples, of all creeds, in all parts of the world. Puebla is privately funded and nonpartisan. Puebla has reported on religious and human rights in Haiti, Chile, Nicaragua, Romania, Albania, Zaire, and Nepal, as well as China. Puebla released this month a new report on the suppression of religious freedom in China. This report is based on the results of a Puebla fact-finding mission to China in 1989; our continued monitoring of the situation through private religious contacts in Hong Kong; interviews with Chinese Christians in the U.S.; and information from Catholic religious orders and Christian mission groups with long-standing commitments in the mainland. In it we conclude that persecution of independent religious believers has dramatically increased over the last 18 months. We have documented the cases of 62 Christian clerics and lay leaders, 48 Catholics and 14 Protestants, currently deprived of liberties in China. We have also compiled information regarding the arrests of hundreds of other Chinese Christians and the closing of scores of independent churches. To date this serious abuse of human rights has largely escaped public scrutiny, so we are grateful to the Committe for the opportunity to shed light on it. We urge that Most Favored Nation trade status to China be granted conditionally for one year on the fulfillment of specific human rights criteria. The restoration of liberties to all religious believers persecuted for their faith should be one criterion.

## Background

Since the Communists came to power in 1949, the government has sought to control religious affairs in China and force worshippers to sever their links with churches abroad. Toward these ends authorities created the Patriotic Catholic Association (PCA), an organization controlled by the Communists and independent of the Vatican, that overseas the ordination of priests and other Church affairs. The government also established an official Protestant organization, called the Three Self Patriotic Movement (TSPM), to oversee all activities of Protestant believers. Christians defying the state's religious policies by worshipping and engaging in religious activities independent of these organizations are harassed and persecuted.

Throughout communist rule religious worship has been closely circumscribed, with the government's ultimate stated objective being the abolition of religion. The degree of persecution has waxed and waned along with political cycles. This dialectic of restriction (*shou*) and liberalization (*fang*), as Chinese scholar Professor Thomas B. Gold of the University of California at Berkeley has observed, makes difficult the emergence of civil society. The Chinese Communist Party fears the prospect of independent activities and organizations; and makes every effort to prevent them from springing up. Nevertheless, independent religious activity continues on the mainland, with reliable, independent statistics estimating Christians to number in the tens of millions.

Under Deng Xiaoping, by the early 1980s China had adopted a slightly more liberal religious policy, but by 1987 was showing signs of a return to a harder-line stance. New religious regulations were issued in 1988, resulting in increased pressure on churches from local administrative authorities. Following the crackdown on pro-democracy demonstrators in Tiananmen Square in June 1989, the State Council's Religious Affairs Bureau strengthened its control over the official religious organizations, regulating church activities more directly and aggressively. All reports documented by the Puebla Institute over the past year indicate that Chinese Christians are again experiencing a painful period of "shou" as human rights violations against them have significantly increased.

While both Catholics and Protestants are under intensified pressure, their circumstances differ.

## Catholics

Of the 48 Catholic leaders on Puebla's list, 19 priests have been arrested since December 1989 alone. This recent spate of arrests is part of a crackdown on the underground church that coincided with the government's crushing of the democracy movement last June. But the persecution of Catholics is not simply part of the generalized repression following the June 1989 democracy demonstrations. Rather, such persecution predates Tiananmen and is directly linked to the democratization of Eastern Europe.

According to China scholar Merle Goldman of Boston University, Deng has greatly feared the influence of reform movements in Eastern Europe since the rise of Solidarity in Poland in the early 1980s. The influence of these countries, rather than of the West, preoccupied Deng during the early stages of the Tiananmen Square demonstrations. On April 25, 1989 he railed against Chinese pro-democracy students: "Those people who have been influenced by the free elements of Yugoslavia, Poland, Hungary and the Soviet Union have arisen to create turmoil. Their motive is to overthrow the party." In the context of this concern about reforms in other communist states provoking increased demands at home, Deng has tightened the grip on all centers of independent authority in China, especially the churches. At a Chinese Communist Party congress in December 1989, officials accused Pope John Paul II and the Catholic churches of instigating and nurturing the trend of liberalization in the Soviet bloc. The Pope was specifically charged with holding "reactionary and subversive" intentions towards China, as well. As a result, Catholics in China defying the state's religious policies by refusing to join the government church and maintaining loyalty to the Vatican -- a fundamental tenet of Catholicism -- have been singled out for particularly harsh treatment. Currently deprived of liberties for religious reasons are 13 Catholic bishops, 28 priests, eight laymen, and one seminarian.

Independent Catholics are meted out sentences from ten years to life under Article 91 of China's Criminal Law, which prohibits "collusion with foreign forces in plotting to harm the sovereignty, territorial integrity, and security of the motherland." Nevertheless, some Catholic leaders have remained loyal to the Vatican, operating what is in effect an underground Catholic church. They persist in their courage and religious convictions in the face of grave personal risks. In the midst of the current crackdown, they decided in November 1989 to form an episcopal conference independent of the PCA. Within a month, seven Catholic bishops of the underground were arrested.

After the communist takeover in 1949, Catholics were accused of maintaining ties with "foreign and imperialist forces," the Church was labelled as "a tool of the imperialist aggressors," and many "clandestine" priests serving the underground church were arrested in the 1950s. Ten priests on Puebla's current list were arrested during these early purges. They had already completed sentences of up to 25 years before being re-arrested in the last few years.

One of the most compelling cases is that of Father Anthony Zhang Kangyi, an acclaimed World War II hero with the Italian resistance. Now 83, Father Zhang has already spent 30 years behind bars since 1949. He was arrested on December 11, 1989, then released, then rearrested on December 28, 1989 and is currently in prison. Father Philip Wang Ziyang, the former Vicar General of Yanggu diocese, died in prison on January 31, 1990 at the age of 90. Father Wang had been imprisoned for over 30 years in a forced labor camp in Guangdo district, where he was subjected to corporal punishment.

Violence against the Catholic Church was also documented in early 1989, even before the events of Tiananmen Square. An especially egregious instance of this was an

April 18, 1989 police rampage against 1500 pro-Vatican Catholics in Youtong village in northern Hebei Province, in which 30 Catholics were arrested, two killed, and approximately 300 wounded, 160 of them severely. The raid was carried out by thousands of policemen in an estimated 270 military vehicles. Among their many victims were young children and elderly women.

The 48 Catholics currently imprisoned or under house arrest are guilty only of seeking to worship according to the dictates of their conscience. The majority are imprisoned or sentenced, like 51-year-old Bishop Casimir Wang Milu who was arrested in April 1984, to "re-education through labor." These persecuted Christian leaders are members of Jesuit, Trappist, Divine Word and other orders, as well as diocesan priests. In many instances their precise whereabouts are now unknown. Twelve priests, all elderly or in poor health, are reportedly now under house arrest and/or strict police surveillance after having already served an initial period of imprisonment.

Among the imprisoned are Father Joseph Jin Dezhen, serving a 15-year sentence for opposing the government's abortion policy; Father Zhang Shentang, serving a 17-year sentence for printing religious literature without government authorization; Father Zhu Baoyu, serving a 10-year term for taking Catholics on a pilgrimage; Bishop Paul Liu Shuhe, under house arrest for possessing two illegal sermons and for owning a typewriter; and Bishop Joseph Fan Xueyin, who has already served 21 years behind bars, and is currently under house arrest for ordaining priests of the underground church.

In addition to these 48 Catholic leaders currently imprisoned or under house arrest by the Chinese government, there are a considerable number of priests not on this list who are "conditionally" free. This means that they have no residence permit, no ration card, no documents making it possible to travel even within the country itself. Tied to one place, dependent on others for their daily necessities, with no possibilities of finding jobs, they too are victims of the government's repressive policies.

## Protestants

As with Catholics, Protestants are required to join the state's designated official religious organization, the TSPM. Many are reluctant to do so, considering it a form of collaboration with an atheistic government. Many also feel that worshipping in the official churches restricts their possibilities to evangelize. As a result, many Protestants worship in "house-churches," private, often secret, meeting places where they gather for fellowship and teaching. Membership in house-churches has increased significantly in the last decade.

Under China's religious policy, evangelizing, preaching, and distributing Christian literature outside the officially approved channels is illegal. Consequently, believers engaged in independent religious activities have been detained and their churches closed. Throughout the 1980s there were over 1,000 incidents where members of Protestant groups were subjected to short-term detention in connection with their religious activities, and at least 79 Christian leaders were charged or sentenced to terms of imprisonment during this time.

Persecution of Protestants has increased since 1988 as a result of two new repressive policies. The first occurred in March 1988 when the government issued religious regulations in Guangdong Province (known as "Document No. 44"). This law allows the provincial government to issue its own administrative regulations for local churches, and represents a move to bring more local Christian communities under the control of officially-appointed TSPM pastors. In the first six months of this year, hundreds of Protestants have been arrested and scores of independent churches closed.

The second is a government drive begun in December 1989 to wipe out so-called "six evils," including "conducting superstitious activities." Authorities are using this political purification campaign as a basis for a renewed purge against Protestants, particularly those active in house-churches. It resembles the government's violent fight against the "Four Olds" (old ideas, culture, customs, and habits) during the Cultural Revolution. As such it bodes ill for the independent churches.

In addition to being accused of superstition, Protestant activists are most often charged with: membership in the "Shouters," a Protestant evangelical group branded counter-revolutionary by the regime; planning to overthrow China's proletarian-dictatorship and socialist system; associating with overseas reactionary forces; receiving and distributing foreign materials; disturbing the social order; and disturbing and breaking up normal religious activities.

The Puebla Institute has documented the cases of 14 known Protestant religious prisoners, and describes in more general terms the detention of many more. Because of restrictions on expression and the press, and secrecy surrounding the judicial and penal systems in China, it is difficult to document information on prisoners of conscience.

Among those currently imprisoned is Mai Furen of Shanton in Guangdong Province. Now in his late 70s, Mai is serving a 12-year sentence on charges of distributing Bibles; having "illegal" overseas connections; and belonging to the Shouters, a Protestant evangelical group. Arrested with Mai was Sun Ludian, also of Guangdong Province, who is serving a 12-year sentence in labor camp. Seven evangelical lay leaders from Lushan County were arrested together for their religious activities, receiving sentences of up to 15 years' imprisonment. Xu Yongze, an evangelist from Henan Province, was arrested in 1983 but escaped from labor camp and went into hiding. He was rearrested by officials of China's Ministry of State Security on April 16, 1988 in Beijing, where he was attempting to attend a service led by American evangelist Billy Graham. He is currently serving a three-year sentence in Zhenping County Prison. In November 1988, it was reported that he was sick with tuberculosis and gastric disease and was lacking adequate warm clothing and medicine.

In addition to the prisoners noted by name, Puebla has received reports from various Christian mission groups and the Hong Kong-based Chinese News and Church Report of various incidents of religious persecution against Protestants, including arrests, detentions, and church closings. These incidents are sobering testimony to the dramatically deteriorating situation of independent churches in China.

Among the most disturbing reports is that of a group of five Chinese Christians arrested in November 1989. Two of them, a father and daughter, were reportedly tortured to death while in detention. This report came from a Chinese missionary whom we refer to as Mr. X, since identifying him by name would compromise his safety. The executive director of the Western missionary group with which Mr. X is associated told me the following:

> Mr. X was born in mainland China and has coordinated our work there for 10 or 12 years. He has been able to establish hundreds of House Churches. These are groups of Christians who meet for worship and fellowship in hidden places because they have found it is the only way to worship God according to the dictates of their conscience...They do not want their pictures or their names published because they fear the consequences. Mr. X's identity must be safeguarded if he is to continue his organizational work and his preaching ministry amongst the secret churches in China. I know Mr. X personally and have no doubts about the authenticity of his reports...I prefer my name not be published in connection with these things either because I also travel in China from time to time and it is better to keep as "low key" as possible.

Other incidents, throughout 1989 and 1990, indicate that the overall pattern emerging is one of house-searches, fines, arrests and detentions ranging from a few days to a few months. One Hong Kong-based expert on the Chinese Protestant church, who had just returned from a trip to the mainland, reported last week that "the situation has definitely deteriorated this last year." Puebla has reports of scores of churches being closed by Public Security officials in recent months and of whole congregations being detained, interrogated, and fined amounts ranging from one month's to one year's salary.

On February 22, 1990, Lin Xiangao, a well-known pastor of the large Damazhan church in Guangzhou, was apprehended and subjected to 21 hours of continuous interrogation about his refusal to join the TSPM. Pastor Lin was first arrested in 1955 and jailed for 16 months, then rearrested in the "anti-rightist" crackdown of 1958 and imprisoned for 20 years, serving many years of this sentence doing hard labor in the Xiyu Coal Mine in Shanxi Province.

According to Lin's own account of his most recent arrest, approximately 50 policemen raided the church at about 11:30 p.m. "like an assaulting army." They commenced a four and a half hour search and confiscated all Bibles, several thousand tracts, 3,000 hymn-books, several tape-recorders, a closed-circuit TV, amplifiers, seven microphones, several thousand tapes, and mimeographing machines. Lin was released in the early morning hours of February 24 after signing a document agreeing to close the Damazhan church, which has had significant contacts abroad.

Protestant activists in Hong Kong believe the ban on the Damazhan church reflects an intensified effort by Chinese authorities to sever links between mainland churches and overseas religious organizations since Tiananmen. This interpretation is supported by the mounting evidence of worsening treatment of foreign missionaries. In June 1989, for example, several American Christians were detained several days and their passports confiscated for distributing tracts in a public park in Kunming. In August 1989, state officials banned Chinese Christians from the official TSPM church from attending an international conference of Protestant churches in South Korea. Also in August 1989 it was reported that Christians in at least five provinces were penalized with steep fines -- in some cases up to the equivalent of three years' salary -- and imprisonment for listening to foreign radio gospel broadcasts. In December 1989, a Japanese professor at the University of Wuhan was apprehended, detained and interrogated, and his passport confiscated, by Public Security officials who cited "reading the Bible with his students and leading many of them to believe in Christianity" as grounds for condemning him for "engaging in illegal religious activities." The teacher was expelled from the country. Finally, in April 1990 Chinese officials warned foreign Christians not to participate in house-church activities nor to bring scripture or devotional books into the country. An official from Shenzhen City was quoted in a Hong Kong newspaper as saying "It is against China's religious laws for foreign groups and individuals to engage in spreading religion in China. Their preaching the Gospel here is virtually illegal."

## Conclusion

The current, deteriorating situation of independent churches in China has largely been obscured by the much-publicized Tiananmen Square crackdown, with which it largely coincides but from which it is separate. In the case of Catholics, intensified persecution predates Tiananmen and is related to the wave of liberalization in the communist countries of Eastern Europe. With regard to Protestants, harassment began to increase before Tiananmen, but has increased in its wake. Both Catholics and Protestants are victims of the Chinese government's turn inward, its increasing suspicion of foreign influence, and its aggressive efforts to impose strict Marxist-Leninist doctrine. The situation of Christians in China, always tenuous, has taken a decided turn for the worse.

Freedom of religion is a fundamental principle of democracy, one intimately connected to other freedoms cherished by Americans -- of speech, of belief, of movement. Democracy in China can be encouraged by pressuring the government to guarantee in practice what it guarantees on paper in the founding documents of the PRC: freedom of religion for all citizens. The U.S. has human rights at the heart of its foreign policy. Given that pledge, we urge the Administration to use the extension of MFN trade status to China as a lever for encouraging concrete progress by the Chinese regime in protecting the human rights of all Chinese citizens. Specifically we request that the renewal of MFN after this one year probationary period be conditioned on the restoration of freedom for Christian believers.

Thank you very much.

## PERSECUTED CATHOLICS

1. **Bishop Joseph Fan Xueyin.** Bishop of Baoding, Hebei Province. Born on Dec. 29, 1907. Previously imprisoned for 21 years between 1958 and 1979. Most recent arrest in 1981; sentenced to "reform though labor." Imprisoned from 1981 until 1987 when transferred to house arrest after intervention by Cardinal Jaime Sin of Manilla. Currently under house arrest and in poor health. He has ordained many of the underground priests and bishops in Hebei, the province with a large Catholic population.

2. **Bishop Casimir Wang Milu.** Bishop of Tianshui diocese, Gansu Province. Born in 1939. Arrested in 1983 or 1984, and sentenced in 1985 to ten years of "reform through labor." Reportedly now imprisoned in a labor camp in Pingliang, Gansu.

3. **Bishop John Yang Shudao.** Bishop of Fuzhou, Fujian Province. Previously arrested, time period unknown; released in 1980. Most recent arrest occurred on February 28, 1988. Reportedly now imprisoned.

4. **Bishop Paul Liu Shuhe.** Bishop of Yixian, Hebei Province. 69 years old. Arrested and imprisoned on October 30, 1988; a three-year sentence in reeducation and labor prison was commuted to house arrest on January 16, 1989 because of his ill health.

5. **Bishop Julius Jia Zhiguo.** Bishop of Zhengding, Hebei Province. Born in 1935. Arrested April 7, 1989; now under house arrest for an unspecified period.

6. **Bishop Peter Liu Guangdon.** Bishop of Yixian diocese, Hebei Province. Arrested November 26, 1989, and reportedly now imprisoned. He has not been heard from since he was called to Baoding City's Public Security Bureau at the time of his arrest.

7. **Bishop Joseph Li Side.** Bishop of Tianjin diocese. Arrested on December 8, 1989, and reportedly now imprisoned. He was seized by a large contingent of public security personnel as he left his home in response to a call to administer last rites. His whereabouts are not now known.

8. **Bishop Guo Wenzhi.** Bishop of Harbin, Heilongjiang Province. Born on January 11, 1918. Previously interned between 1954 and 1964. He was rearrested in 1966 and interned in a prison camp for "reform through labor" in Xinjiang Autonomous Region until his release in 1979. He returned to Hebei and taught foreign languages until 1985. Most recent arrest on December 14, 1989; released in March 1990 to home village in Qiqihar, which he is forbidden from leaving and where he is under strict police surveillance.

9. **Bishop Philip Yang Lipo.** Bishop of Lanzhou, Gansu Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

10. **Bishop Mathias Lu Zhensheng.** Bishop of Tianshui, Gansu Province. Born on January 23, 1919. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

11. **Bishop Paul Li Zhenrong.** Bishop of Xianxian diocese, Hebei Province and member of the Society of Jesus. Born on September 29, 1919. Previously imprisoned between 1957 and 1980. Most recent arrest in December 1989; in March 1990 released to home village, which he cannot leave, and where he is under strict police surveillance.

12. **Bishop Bartholemew Yu Chengdi.** Bishop of Hanzhong diocese, Shaanxi Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

13. **Bishop Jiang Liren.** Bishop of Hohhot, Inner Mongolia. Date of arrest not known.

14. **Father Philip Wang Ziyang.** Vicar General of the Yanggu diocese, Shandong Province at time of arrest and incarceration in 1950s. Imprisoned over 30 years in a forced labor camp in Guangdo district, where he had been subjected to corporal punishment. Died in prison on January 31, 1990, at the age of 90.

15. **Father Li Fangchun.** Priest of Guide diocese, Henan Province. Arrested in early 1980s and reportedly still imprisoned.

16. **Father Zhang Shentang.** Believed to be of Nanyang diocese, Henan Province. Arrested in early 1980s and sentenced to 17-year prison term. Reportedly released because of failing health in December 1989 and now under house arrest.

17. **Father Zhu Baoyu**. Believed to be of Nanyang diocese, Henan Province. Arrested in the early 1980s and reportedly still imprisoned on a ten-year sentence after taking Catholics on a pilgrimage to Sheshan, near Shanghai.

18. **Father Huo Binzhang**. At time of arrest, Vicar General of Boading, Hebei, and Bishop Fan's deputy. 73 years old. Previously served a three-year sentence in the late 1960s or early 1970s. Most recent arrest and incarceration in 1981. Sentenced in 1983 to 10 years of "reform through labor." Probably transferred to house arrest in 1987.

19. **Father Gabriel Chen Tianziang**. Jesuit from Shanghai. 73 years old. Previously imprisoned for 25 years between 1953 and 1979. Most recent arrest and imprisonment in November 1981. He was tried in early 1983 and sentenced to 12 years of imprisonment for having baptized Communist cadres in prison. Unconfirmed reports indicate that he has been released, but, if so, probably under house arrest and/or strict police surveillance. Health believed to be poor, suffering from coronary disease and chronic bronchitis.

20. **Father Liao Haiqing**. About 50 years old. Priest of Jiangxi Province. Arrested on November 19, 1981. As of last report in 1988 he was still interned in Prison No. 4 in Nanchang, the capital of Jiangxi Province. There has been no news of him since.

21. **Father Vincent Zhu Hongsheng**. Prominent Jesuit from Shanghai. 78 years old. Previously imprisoned for 24 years between 1955 and 1979. Most recent arrest and imprisonment on November 19, 1981; placed under house arrest in February 1988; now allowed to move around in Shanghai municipality, but not allowed to leave.

22. **Father Joseph Chen Yuntang**. 73 years old. Arrested and imprisoned on November 19, 1981, and sentenced in 1983 to an eleven-year term. Unconfirmed reports indicate that he has been released, but, if so, probably under house arrest and/or strict police surveillance.

23. **Father Fu Hezhou**. 68 years old. Arrested and imprisoned on November 19, 1981. Unconfirmed reports indicate that he has been released, but, if so, probably under house arrest and/or strict police surveillance.

24. **Father Joseph Jin Dezhen**. Vicar General of Nanyang diocese, Henan Province. Previously jailed between 1958 and 1973. Rearrested on unknown date and sentenced in December 1981. Reportedly still imprisoned, serving a 15-year sentence.

25. **Father Joseph Guo Fude**. Member of the Society of the Divine Word. 69 years old. Spent 22 years in detention. Most recently arrested and imprisoned in spring 1982. As of late 1986, interned in a labor camp in southern Shandong; unconfirmed reports indicate that he has been released, but, if so, probably under house arrest and/or strict police surveillance.

26. **Father Wang Yiqi**. Priest of Fujian Province. Arrested probably on February 28, 1988; reportedly still imprisoned.

27. **Father Gao Yihua**. 29 years old. Priest of Changle county, Fujian Province. Arrested with Fr. Feng Yongbing (See No. 28) on September 14, 1988; reportedly still in prison.

28. **Father Feng Yongbing**. 35 years old. Priest of Changle county, Fujian Province. Arrested on September 14, 1988; reportedly now imprisoned.

29. **Father Pei Ronggui**. Trappist priest in Youtong village, Hebei Province. 50 years old. Arrested in September 1989 in Biejing. As a priest who officiated at Youtong village, where police went on a bloody rampage against the town's 1500 Catholics on April 18, 1989, he had been on the wanted list ever since. Reportedly now imprisoned.

30. **Father Xiao Shixiang**. Priest in Yixian diocese. Arrested on October 20, 1989, and reportedly now imprisoned.

31. **Father Pei Zhenping**. Priest of the Trappist order in Youtong village, Hebei Province, site of bloody police raid in April 1989. Arrested on October 21, 1989, and reportedly now imprisoned.

32. **Father Shi Wande**. Priest from Baoding diocese, Hebei Province. Arrested on December 9, 1989 and reportedly now imprisoned.

33. **Father Anthony Zhang Kangyi.** Priest in Sanyuan diocese, near Xian City. 83 years old. Imprisoned several times for a total of 30 years between 1949, when he returned from Italy where he served as a chaplain for the resistance during World War II, and the present. Arrested on December 11, 1989, then released; rearrested on December 28, 1989 and reportedly now imprisoned.

34. **Father Xu Zhemin.** Recently named Vicar General of Baoding diocese, Hebei Province. Arrested on December 17, 1989. Has reportedly died in prison. Family efforts to see him or learn of his whereabouts have not succeeded.

35. **Father Wang Ruowang.** See below (No. 36);

36. **Father Wang Ruohan.** Priests in Tianshu diocese, Gansu Province. Brothers of Bishop Casimir Wang Milu (No. 2).; Both arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

37. **Father Yu Chengxin.** Priest of Hanzhong diocese, Shaanxi Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

38. **Father Zhang Xiaocheng.** Priest of Tianshui diocese, Gansu Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

39. **Father Sun Ximan.** Priest of Tianshui diocese, Gansu Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

40. **Father Wei Jingyi.** Priest from Qiqihar, Heilongjiang Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

41. **Father Pei Guojun.** Priest from Yixian diocese, Hebei Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

42. **Wang Jingjing.** Layman of Fujian Province. Arrested probably on February 28, 1988; reportedly now imprisoned.

43. **Chen Youping.** Layman of Fujian Province. Arrested on March 1, 1988; reportedly now imprisoned.

44. **Lin Shanming.** 25 years old. Seminarian from Pingtan county, Fujian Province. Arrested on September 14, 1988; reportedly now imprisoned.

45. **Lin Wenming.** 24 years old. Layman from Fuqing county, Fujian Province. Arrested on September 14, 1988; reportedly now imprisoned.

46. **Pei Jieshu.** See below (No. 47);

47. **Pei Shangchen.** Community leaders in Youtong village, Hebei Province. Arrested on October 23, 1989, and reportedly now imprisoned.

48. **Wang Tongshang.** Deacon and community leader in Baoding diocese, Hebei Province. Arrested on December 16, 1989 and reportedly now imprisoned.

49. **Wang Tianzhang.** Deacon from Lanzhou diocese, Gansu Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

50. **Li Yongfu.** Layman from Tianjin diocese. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

## PERSECUTED PROTESTANTS

1. **Liu Qinglin** of Zalantun, eastern Inner Mongolia. A house-church evangelist, he was arrested on September 14, 1989 and charged with "wide-scale superstitious healing activity" and sentenced to "re-education through labor." Mr. Liu began his preaching activities in 1984. Since that time he has helped establish some 20 house-churches and baptized nearly 3,000 people.

2. **Mai Furen** of Shanton in Guangdong province. In his late 70s, Mai Furen is one of three Protestant church leaders arrested in September 1983 on charges of having illegal connections overseas; belonging to the Shouters, a Protestant evangelical group; and distributing Bibles. Brought

to trial in January 1986 and sentenced to 12 years' imprisonment, he is now detained in a labor camp in Mei County Prison, in northern Guangdong Province.

3. **Sun Ludian** of Shanton, Guangdong province. 67-years old, he was arrested in September 1983 with Mai Furen for the same reasons, except that he was not accused of distributing Bibles. Sentenced in January 1986 to nine years of imprisonment, is he now detained in a labor camp in Mei County Prison. He is very ill.

4. **Xu Yongze** of Nanyang, Zhenping County, Henan province. 50-years-old, he was a leader of a house-church network in central China. He was arrested on April 16, 1988 in Yuetan Park in Beijing by officials of China's Ministry of State Security. Xu Yongze is reported to have been in hiding since 1983 after escaping from a labor camp where he was held without trial for several months in connection with his religious activities. Since then, he had managed to escape arrest and continued evangelizing in rural areas. The exact details of formal charges against Xu are not known, but he has been sentenced to three years of imprisonment. He is currently being held in Zhenping County Prison, Henan. At the time of his arrest, he was in Beijing to attend a service led by American evangelist Billy Graham. In November 1988, it was reported that he was sick with tuberculosis and gastric disease and was lacking adequate warm clothing and medicine.

Xu Yongze is said to have started preaching the Gospel in 1968 around his home in the South of Henan Province. He soon trained a team of young evangelists who preached and created house-churches throughout the province. The group expanded to other provinces over the years. They are reported to have established over 3,000 house-churches in central China since 1980. Many evangelists in the group are reported to have been arrested or detained in recent years.

5. **Song Yude** of Baimaio village, Yuehe district, Tongbo County, Henan Province. This 36-year-old evangelical minister was arrested on July 16, 1984 for "counter-revolutionary" crimes in connection with his refusal to join the government's Three Self Patriotic Movement of Protestant Churches. Tried on January 29, 1986, he was convicted of distributing "reactionary" religious publications, and conducting illegal religious meetings. He was sentenced to eight years of imprisonment and three years of deprivation of political rights. His appeal was rejected in April 1986. Until trial, he was held in Tongbo County Detention Center. He is currently being held in Henan province.

6. **Xu Guoxing**, house-church leader in Shanghai, arrested in June of 1989. He is reported to be serving a 3-year sentence in labor camp.

The information about the following eight cases is accurate as of 1986. No information on these individuals has been ascertained since that time.

7. **Mr. Wang** of Zhandeun Village, Fuling Brigade, Xinji Commune, Lushan County. This 36-year old evangelical elder was sentenced to 15 years' imprisonment.

8. **Mr. Zhang** of Zhaozhuang Village, Houying Brigade, Zhanian Commune, Lushan County. This 65-year old evangelical elder was sentenced to 14 years of imprisonment.

9. **Mr. Qin** of Xinji Commune, Lushan County. The length of sentence for this 54-year old evangelical deacon is unknown.

10. **Mr. Cui** of Lushan County. The length of sentence for this 42-year old evangelical elder is unknown.

11. **Mr. Xue** of Linzhuang Village, Xinhua Brigade, Zhangdian Commune, Lushan County. The length of sentence for this 35-year-old evangelical elder is unknown.

12. **Mr. Wang** of Second Street, Chengguan Township, Lushan County. The sentence for this 64-year-old evangelical elder is unknown.

13. **Mr. Geng** of Sunzhuang Village, Malon Commune, Lushan County. The sentence for this 63-year-old evangelical elder is unknown.

14. **Pei Zhongxun** (Chun Chul) of Shanghai. This 71-year-old Protestant activist was arrested in August 1983 for allegedly spying for the Taiwanese government because of his connection with Taiwanese Christians and activity in the house-church movement. He was sentenced to 15 years of imprisonment and currently reported to be in prison near Shanghai. Previous reports of his release have been retracted. As of June 1990 private sources in Hong Kong confirmed his continuing

detention. Pei is an ethnic Korean.

15. In March 1990, a house-church group of some 50 to 60 members in a county in eastern China was raided by the Public Security Bureau and its leader arrested and it is not known whether he has been released. In a rural area of the same region, a second house-church pastor was arrested for failing to conform with a government order to register with the State-recognized Three Self Patriotic Movement.

16. In March 1990, two female itinerant evangelists from Henan Province were arrested in Kunming and were reported still in detention as of June.

17. Also in March 1990 two brothers from Shanghai were arrested while on their way to Guangzhou to pick up some Christian literature. They are reportedly still in prison.

18. On the evening of February 22, 1990 in Canton, Guangdong Province, three house-church leaders were arrested. The house-churches were forced to close and the leaders were released following interrogation by Public Security Bureau officials. All cassettes, diaries, personal letters and books not published in China were confiscated.

19. In January 1990, *Christian Missions to the Communist World*, an evangelical missions group based in Indiana, reported that five Chinese members of an underground church established by the organization's missionaries had been arrested and imprisoned. The missions group claimed that two of the members, a father and daughter, had died in prison as a result of torture.

20. In December 1989, some 50 meeting places in the eastern part of China were seized, while in another part of the country a house-church with a congregation of over 1000 people was closed and Bibles, church possessions, and believers' books were confiscated. Some house-church leaders were believed to have been arrested although the number in detention is unknown.

21. On December 19, 1989, approximately 70 Christians attending a worship service in Shanghai were arrested by a contingent of 140 officers of the Public Security Bureau. They were later taken to a school and individually interrogated. Their hymn-books and Bibles were confiscated.

22. Also in December 1989, a Christian man in his 40s who had been studying at a Bible school in the U.S. was arrested in Shanghai for "rehabilitation" and remains in custody.

23. Two itinerant evangelists in their 40s were reported arrested in one of China's coastal cities in November 1989 on charges connected with their activities in the underground churches.

24. Also in November 1989, several Christians involved in the private printing of devotional and training materials for use in house-churches were arrested in Zhejiang.

25. In September 1989 believers from central China reported that police had raided a house-church in Henan, arresting some 100 church participants, fining them each 250 to 450 yuan (US $67-121), and imprisoning those unable to pay.

26. Also in September 1989, at a meeting place in Jiangsu Province attended by some 300 Christians, 156 were arrested and detained. Local Christians were fined amounts equal to approximately one month's salary of the average worker while Christians from other provinces were fined amounts equal to one year's salary.

27. On May 21, 1989, two leading Protestant Christian house-church leaders were arrested by the Public Security authorities in a small city in Inner Mongolia. By June 20, the leaders had not been released. No further information about their whereabouts or what, if any, charges have been brought against them is available.

28. In February 1989 in Anhui Province authorities arrested 20 people associated with the "Whole Scope Church" (a large network of Christians in Central China that has been branded "counter-revolutionary" by the government because of its alleged support from Christians outside China and because of unspecified "illegal activities").

29. In January 1989, Public Security Bureau agents arrested three men and one woman during a house-church meeting in Baotou, Inner Mongolia.

Chairman GIBBONS. Mr. Li.

## STATEMENT OF SHI-JIANG LI, PH.D., ASSISTANT PROFESSOR OF RADIOLOGY, MEDICAL COLLEGE OF WISCONSIN, MILWAUKEE, WIS.

Mr. LI. My name is Shi-Jiang Li, I am as assistant professor of radiology, Medical College of Wisconsin.

Thank you for allowing me to testify on MFN for China, and to summarize my statement of support for most-favored-nation status for China. I want to testify before your committee that to support MFN for China by no means supports the actions of the Chinese Government at Tiananmen Square last year.

Instead, to support MFN for China is helping China to democracy. MFN and democracy in China are closely related, in three ways, as follows: First, to support MFN for China is a way to support the Chinese open-door policy, the Chinese economy, and political reform.

In Chinese history, whenever the door is open, the democratic values will be introduced to China. The trading activity not only involves material exchange, but also the exchange of ideas and values.

In this activity, we promote contact among different nations and people, and thus, we help people in different countries to understand those whose cultural and social background may be different.

Obviously, the continuation of MFN is a way of continuing the influence of the American value system.

Second, the open-door policy has brought freedom and a better life to the ordinary Chinese people in the last 10 years—especially to the poor peasants and the workers. Without the open-door policy, we Chinese students and scholars wouldn't be here today in the United States.

Third, continuation of MFN for China will stabilize the Chinese economy. If the economy of a nation collapses, no matter who controls or takes the power of the country, the country will suffer, the people will suffer.

China has 1.1 billion people—five times as many as the U.S. population—so, stabilizing the economy is very important for Chinese day-to-day life.

Along with my statement, I also provided you with a copy of signatures from 53 Chinese students and scholars from three schools in the United States. These signatures represent a small portion of Chinese scholars and students who are against the termination of MFN for China. In my school, the Medical College of Wisconsin, there are about 30 Chinese students and scholars. Ten of them signed their names on the letter which I submitted to you. Six of them have the same view as I, but they don't want to speak out. Seven of them are not interested. Only two rejected. The others could not be reached in time.

Chinese students and scholars who love China do not want to see their brothers, sisters, and parents suffer from the termination of most-favored-nation status for China. They don't want to see further political, economical and political tension between the two great nations. They want the open-door policy and political and economic reform to continue.

Although there is no accurate survey as to the percentage of Chinese students and scholars who support the most favored nation for China, it is questionable that the majority of Chinese students and scholars in the United States are supportive of termination of MFN for China.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Li. We certainly appreciate it, and we know what a sensitive matter this is for you of Chinese birth and Chinese ancestry. We appreciate the tough position you find yourself in.

[An attachment to the statement follows:]

May 23, 1990

Hon. Sam M. Gibbons, Chairman
House Ways and Means Subcommittee on Trade
1136 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

We, Chinese students and scholars, strongly urge you to vote against termination of Most Favored Nation Status (MFN) for the People's Republic of China. Revoking the MFN for the People's Republic of China will further create the political and economic tension between the two great nations which does not meet the best interests of either country in the long run. Termination of the privilege of MFN for China will cause substantial economic damage to China. In addition, the action of the termination will tremendously slow the Chinese Open–Door policy and the political and economic reform; thus, damaging the future social democratization process in China. It is not responsible and practical to claim that the termination of MFN will cause the present Chinese regime to step down. Destruction is innately easier than construction. Let's use our constructive mind to form the bridge––fill the gap––creating better understanding between the nations and among different cultural background and value systems.

We sincerely ask you to vote against the termination of MFN for China. Vote for the future!

SIGNATURES

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|---|---|
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| [illegible] Guanquan | Medical College of Wisconsin 257-6575 |
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SIGNATURE CONTINUE -- Against the termination of MFN for China

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SIGNATURE CONTINUE -- Against the termination of MFN for China

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Chairman GIBBONS. Mr. Cohen.

## STATEMENT OF MARK ALLEN COHEN, ESQ., WINDELS, MARX, DAVIES & IVES, WASHINGTON, D.C.

Mr. COHEN. Thank you, Mr. Chairman.

My name is Mark Allen Cohen. I am an attorney in the Washington, D.C. office of Windels, Marx, Davies & Ives. Although I represent a number of U.S. and foreign companies engaged in trade with China, the views I express before you today are personal and do not reflect the opinions of my firm or any of its clients.

I am testifying in order to assist Congress in placing the issue of MFN renewal within the context of our laws regarding United States-China trade. I also will address prophylactic measures available to reduce adverse impacts of MFN revocation, as well as the more surgical means available to the United States under current law.

Despite the human rights abuses of the past year, I personally favor renewal of MFN. MFN promotes reform in China. I believe MFN helps preserve and protect Hong Kong's status. MFN enhances the role of market-oriented enterprises in China, including foreign- and U.S.-invested enterprises. MFN encourages industrial democracy, an important factor in developing political democracy.

Revocation of MFN, however, would cause commensurate retaliation. It would adversely affect U.S.-invested enterprises, as well as U.S. consumers. It would enhance the role of State enterprises as their budgets are less dependent on profits from exports. It would sever the business relationships between the United States and China that have been established over the past 10 years.

Most importantly, I believe it would not advance human rights. If MFN were revoked, our chances of seeing human rights reinstated in China will, I believe, be reduced.

Further, in the context of our trade laws, MFN is something of a misnomer for China. most-favored-nation treatment is accorded over 170 trading partners and denied to only a few countries and regions. Few realize, however, the extent to which China is already among the least favored of our most favored trading partners.

How is China least favored?

First, MFN is not the most preferential treatment that can be accorded an import. Duty-free entry under the generalized system of preferences, or GSP, is far superior. The United States accords GSP to about 125 developing countries and has denied it to China. Most developed countries, however, extend GSP to China.

Second, China is subject to a host of other restrictions. There is special Chinese treatment under our export control laws. The only successful 406 investigation involved imports from China. The first Exon-Florio divestment order also involved a Chinese investment in the United States.

Third, this subcommittee has also explicitly recognized China's unfair treatment when it considered proposals to amend the trade laws with China at the time of the 1988 trade bill. The ad hoc Committee on Fair Trade with China addressed inequities in the antidumping law and other laws that discriminate against China.

Revocation of MFN would have two significant direct effects. One is obvious: Duties would increase as much as 1,000 percent. The second, however, is by implication. Congress would have enacted a separate barrier regarding country of origin. Because of the high volume of Chinese goods processed and/or transshipped through Hong Kong, Congress should enact a predictable rule of origin for such goods to determine whether MFN would apply.

The current rule of origin, substantial transformation, is an unpredictable and subjective test. It would provide little comfort to Hong Kong exporters that may be facing considerable customs penalties if they have improperly determined a country of origin of the exports.

Further, Congress could decide to ameliorate the impact of a loss of MFN by establishing a new rule of origin for Chinese goods that are processed through Hong Kong. A country of origin standard that would be geared to protecting, and even enhancing, Hong Kong's status could be enacted.

For example, Congress could provide that, if an item exported from Hong Kong contained 50 percent or less Chinese value, it shall be deemed a product of Hong Kong. This could help safeguard Hong Kong's entrepot status for the 1997 reunification, as well as enhance the role of southern Chinese enterprises that rely on Hong Kong.

There are other alternatives to MFN revocation. I have outlined these in my written testimony. One alternative measure I would like to discuss is a conditional granting of MFN, such as those set forth in some of the pending bills.

I believe specific, conditional granting of MFN is not likely to encourage reform by Chinese leaders.

Further, conditional MFN could result in a rapid increase in export volume of Chinese products. Chinese exporters that might be facing a geometric jump in U.S. duties would likely increase their volume of shipments before expiration of MFN, thereby further exacerbating the bilateral trade deficit.

In addition, because of the uncertainty regarding renewal of MFN by the United States, China would likely not commit itself to long-term contracts with U.S. exporters.

One thing is clear: An outright revocation of MFN will harm many individuals and companies in the United States, as well as common Chinese citizens. The failure to take into full account the implications for Hong Kong would itself be a disservice, not only to the legal principles of Jackson-Vanik, but to our broader interests in human rights.

I thank you for the opportunity of presenting this testimony, and I remain available for questions.

Chairman GIBBONS. Thank you, Mr. Cohen.

[The statement of Mr. Cohen follows:]

Submission to the House Ways and Means Committee,
Trade Subcommittee
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# CHINA'S TREATMENT UNDER OUR TRADE LAWS AND AN APPROPRIATE U.S. RESPONSE

On May 24, the President announced his intention to renew Most Favored Nation ("MFN") status to China. The "Jackson-Vanik Amendment" to the 1974 Trade Act permits suspension of MFN if a communist country refuses to honor certain human rights practices, notably free emigration. Congress has the authority to override this decision and at least six bills and resolutions have been introduced in Congress to remove MFN for China, or facilitate future removal. As a trade lawyer who has studied Chinese affairs for nearly 17 years, I would like to discuss these actions in the context of our revulsion at Chinese human rights practices as well as the trade remedies otherwise available to the United States.

My belief is that, no matter the degree of our collective disgust with Chinese human rights practices, a decision by Congress to forego renewing MFN would sever the hard-fought ties established since the delicate era of "ping-pong" diplomacy. It would throw trade relations back to the minimal levels existing more than ten years ago and force permanent removal of the limited trade benefits now in effect. Contrariwise, the failure to renew MFN would have no discernible, immediate, positive effect on the Chinese Government's human rights policies and practices or the welfare of the Chinese people. A blanket denial of MFN would be as symbolic a gesture in our trade relations as MacArthur's crossing the Yalu River was to our political relations with China nearly 40 years ago.

## China as a "Most Favored" Nation

It is useful to begin by stating what MFN is not. MFN is not, in fact, the "most favorable" tariff treatment; it may be more appropriately defined as non-discriminatory or general tariff treatment. Entry of eligible products from eligible countries under the Generalized System of Preferences ("GSP"), Caribbean Basin Initiative, and other programs, when available, is preferable to MFN because it is duty free, rather than subject to MFN rates.

MFN is also not a modern concept of according tariff preferences to countries of similar political dispositions. Although embodied in the GATT and our trade laws, MFN status is, in fact, an ancient commercial concept, dating to the 12th Century. The term "Most Favored Nation" did not appear until the 17th Century. The United States, in its early days, established a novel interpretation of the MFN clause, beginning with its first treaty after independence, the United States-France treaty of 1778. That treaty linked MFN treatment to access to markets controlled by the treaty partner. Executive Branch GATT Studies, No. 9, "The Most Favored Nation Provision", at 133-135, Committee on Finance, United States Senate, Subcommittee on International Trade, 93rd Cong. 2d Sess. More recently, MFN was one of Wilson's fourteen points urging "the establishment of an equality of trade conditions among all nations consenting to Peace", which principle was likewise mentioned in the League of Nations Covenant. John H. Jackson, World Trade and the Law of GATT (1969), at 250-251. Historically, MFN has not meant that we condone the domestic behavior of other countries.

Only 16 countries and regions do not receive MFN. Many of these non-MFN recipients, such as North Korea, and Cuba, are separately subject to trade embargoes. Certain known human rights violators, such as South Africa, Libya, and Syria, receive MFN. Because Jackson-Vanik does not apply to non-communist countries, certain countries known for their violations of human rights are therefore exempt from the Jackson-Vanik process of conditional MFN treatment. Jackson-Vanik is, therefore, the exception to the usual rule of granting MFN without reference to human rights conditions of a trading partner.

Jackson-Vanik creates an unique, severable MFN relationship with China that, since its inception, has subjected China to human rights reviews under our trade laws. During the 1980s, MFN status had been continually renewed in light of China's open emigration policies and reforming human rights practices. However, apart from current sanctions, other U.S. trade laws had made China the least favored of our MFN trading partners. The restrictions listed below are typical of China's unique treatment under our trade laws; I am not suggesting these laws be changed, only that they be considered as part of our overall bilateral trade environment.

- The United States has refused to recognize China as a developing country under our tariff laws. China has always been exempt from duty-free tariff dispensation accorded developing countries under the U.S. implementation of the GSP. By comparison, exports from certain Eastern European countries receive GSP treatment from the United States, and most developed countries, including the European Community, extend GSP benefits to China. The United States has refused to extend GSP despite China's obvious underdevelopment and our explicit recognition of China as a developing country in the original trade agreement normalizing relations between our nations. A revocation of MFN at this time would, therefore, only further widen the gap in tariff treatment and trade relations accorded China by the United States and our allies.

- China is subject to special rules under our antidumping and other import relief laws, which make these laws more severe and unpredictable than for market economy countries. Dumping margins for Chinese products have, as a consequence, been among the highest of imports from any country, and have exceeded 100%. Congress explicitly recognized this problem, and held hearings on this issue, at the time of its consideration of the 1988 Omnibus Trade and Competitiveness Act. Rather than reform the legislation then in effect, Congress directed the Commerce Department to study this issue.

- China's investments in the United States are closely scrutinized for their impact on national defense and, in two separate instances, have resulted in U.S. Government intervention to reform the investment or force divestment.

- U.S. exports to China are restricted _sui generis_ under U.S. export control laws, as well as the multilateral regime of the Coordinating Committee for Multilateral Export Controls.

- Although GATT membership is a prerequisite to receiving various U.S. trade benefits, the United States has withheld endorsement of China's readmission to the GATT, and appears to be leaning towards more actively supporting the admission of Taiwan.

If MFN is extended, Congress can be assured that China will remain the "least favored" of our MFN partners, and will continue to receive tariff treatment less preferential than that accorded other developing countries.

## Consequences of MFN Removal

Based on a review of the principal imports from China recorded in the most recent International Trade Commission _Quarterly Reports to Congress and the Trade Policy Committee On Trade Between the United States and the Nonmarket Economy Countries_, removing MFN will result in a five- to tenfold increase in U.S. duties on China's principal exports, to absolute duty levels as high as 60 to 70 percent. Chinese Customs schedules also contain MFN treatment, and a loss of MFN will cause commensurate retaliation by China in tariffs. More importantly, in China's state-controlled economy, where imports and major projects are established by the central authorities, removing MFN will disadvantage U.S. enterprises ability to compete or obtain fair treatment in a broad range of commercial activities. Removing MFN will therefore likely force a disinvestment in the $4 billion of U.S.-invested enterprises in China. These enterprises, even if they remain viable, will also be disadvantaged in importing any U.S. raw materials or materials for their assembly or export operations, thereby further affecting U.S. interests.

As this committee is aware, removing MFN treatment will not only further downgrade China's poor trading status, it will severely affect Hong Kong. According to statistics of the U.S.-China Business Council, as much as seventy percent of China's exports to the United States are transshipped through Hong Kong. The degree of processing of these exports in Hong Kong varies considerably. The percentage of Hong Kong reexports of China's total exports has, however, been increasing considerably over the past few years. Undoubtedly, there is significant value added in Hong Kong to Chinese goods, and a significant percentage of the exports are from United States and Hong Kong enterprises, rather than state-owned Chinese enterprises based in Hong Kong.

## Issues Posed Under Our Laws Regarding Country of Origin

Heretofore, the U.S. Customs Service has been relatively unconcerned whether a particular product was of Hong Kong or Chinese origin because there was no difference in duty rates. However, if MFN were not extended, I believe the Customs authorities will necessarily re-examine the country of origin of many Chinese goods transshipped through Hong Kong, as well as many Hong Kong goods that incorporate substantial Chinese value. The potential increase in tariff revenue will be too great for Customs to ignore.

Further, imports from China that are transshipped or processed in Hong Kong, or Hong Kong imports that contain significant Chinese value, could face an additional and substantial non-tariff barrier if the country of origin of these goods is brought into question. Unlike our allies and trading partners, which generally use objective criteria for determining the country of origin, the U.S. Customs Service, in adhering to a hoary 1908 Supreme Court ruling, generally uses a highly subjective, unpredictable, and sometimes politicized, test on rules of origin involving "substantial transformation." Anheuser-Busch Brewing Association v. United States, 207 U.S. 556, 562 (1908). Under this test, a product of Hong Kong, must have acquired a different "name, character or use" from its Chinese components in order to be regarded as a product of Hong Kong and receive MFN treatment. It is not uncommon for Customs to take as long as two years to resolve issues over the country of origin, which, in addition to tariffs, can also involve the proper country of origin marking of the product, applicable textile and steel quotas, and other issues. Longer delays may be expected if the Customs Service is required to address these issues on approximately $8 billion dollars of imports from China that have been transshipped or transformed in varying degrees in Hong Kong, as well as the significant volume of Hong Kong exports that incorporate substantial Chinese value.

## Social Impact on Liberal Chinese Elements

In addition to the effect upon Hong Kong, free marketeers throughout China, including large parts of Southern China, will suffer. The Special Economic Zones, open port cities, and other regions that have enthusiastically backed economic reform, will be dramatically affected. Rather than hurting the conservative elements of the Communist party who directed the human rights debacle of the past year, we would be strengthening repressive elements who have typically not been supportive of China's open door. We would be further victimizing our allies within China. For example, a cut in China's finances by a reduction in exports, will only serve to strengthen the more stable budgets and allocations of China's state controlled sector; it will not enhance the position of private, collective or other reform-oriented enterprises. Further, Hong Kong industrialists and their Southern Chinese employees, which may number as high as 2.5 million, will suffer considerably. Canton, a center for reform and a strong supporter of deposed leader Zhao Ziyang, will be especially targeted by U.S. actions.

Revoking MFN for China is also a qualitatively different sanction than trade sanctions imposed on capitalist economies. Capitalist enterprises are by their nature subversive to a state-controlled economy, particularly one already embarked on economic reform. Moreover, Chinese people want foreign enterprises; U.S.-invested enterprises, in particular, have been a small, but highly important, progressive force. Foreign-invested enterprises have worked actively to support such issues as reduced party interference on the factory floor and in management, enterprise freedom and independence, and an increased free labor market. They have added to the drive for workplace and economic democracy. Such industrial and labor reforms, as in Poland, can spur nationwide political reforms. To sever MFN at this delicate time would be highly debilitating.

Equally important, foreign-invested enterprises have served a critical role in circulating uncensored information about the West during and after Tiananmen. Even as Western news sources were censored over the past year, corporate fax machines provided a vital link to information about China from the West.

## Loss of U.S. Leverage on Chinese Practices

Non-extension of MFN would also eviscerate all prior U.S. efforts at improving China's trade practices, and thereby further strengthen the position of China's hardliners. With the reduction in trade volume and status, U.S. trade negotiators would be unable to effectively address inequities in China's trade and economic development, including: intellectual property practices, lack of equal treatment of foreign-invested enterprises with Chinese enterprises, and reducing the role of state monopolies in domestic and international trade. The United States would thereby lose its leverage in encouraging certain economic reform measures crucial to China's economic and political development.

Further, once we have played our "MFN card" what additional leverage do we have to encourage favorable human rights practices? The only additional leverage will be the possibility of MFN reinstatement. However, by undercutting the progressive forces in China, we will have weakened that incentive.

## Surgical Responses to the Problem of Economic and Political Backsliding

There are better responses to China than removing MFN. Congress might consider reforming our trade laws so that there are more clearly defined advantages to political and market reform, and to discourage backsliding from China or any of the new Eastern European democracies. One appropriate area might involve export controls, which are required to take into consideration U.S. foreign policy and national security interests. We might also increase political pressure on China by expanding Voice of America programming, or supporting Hong Kong programming to Southern China, free of jamming. We can also offer unconditional refugee status to Chinese students. Other laws, such as those restricting military assistance, munitions imports from China, and imports of goods assembled with prison labor, are also an appropriate, direct response to U.S. dismay.

Increased Communist Party interference and centralization in the Chinese economy may also be addressed by Section 301, the non-market provisions of our dumping laws, and Section 406 of the 1974 Trade Act, dealing with imports from communist countries. The U.S. Government retains the authority to self-initiate actions under all these laws, and has done so to a limited extent in the past. For example, a Section 301 action might address state control over certain trade sectors, including quantitative import restrictions that benefit state enterprises, state control over letter of credit financing, intellectual property protection for software and chemicals, etc. Congress has previously considered legislative responses to some of these actions. These issues have also been previously documented by USTR in its National Trade Estimates report to Congress. All of theses issues would most likely directly affect the state sector of the economy. The United States can also utilize existing law to exert sector specific measures to further reduce the role of China's state sector, such as through selective tightening of textile or steel quotas and further reducing government-to-government technical cooperation.

Congress might also consider limited application of our countervailing duty law to countries which had encouraged market development but re-instituted state controls. The countervailing duty law does not currently apply to non-market economy countries because such countries do not have quantifiable subsidies. If, however, reference can be made to past market practices, subsidies are arguably quantifiable. Because such countries have not yet signed the GATT subsidies code or undertaken equivalent bilateral commitments, the countervailing duty law could then be applied without a test of injury to a U.S. industry.

## Easing the Burden of A Loss of MFN

Although I strongly believe MFN should be maintained, if MFN is revoked, Congress must thoroughly consider whatever measures are possible to ease the burden on Hong Kong and Southern China by providing greater predictability to Hong Kong exporters, such as providing specific instructions to Customs Service regarding exports from Hong Kong and/or enacting a lower threshold for determining when a Chinese product is deemed a product of Hong Kong. For example, if Congress enacted a simple value added test, such as providing that exports from Hong Kong incorporating 50% or less Chinese value will be deemed a product of Hong Kong for purposes of continuing MFN treatment, Congress would be providing greater predictability to Hong Kong exports while at the same time "twisting China's arm" by: (1) enhancing Hong Kong's economic and political position for eventual reintegration; (2) protecting Southern Chinese reform enterprises; and (3) reducing the involvement of state owned or controlled enterprises that do not use the capitalist resources of Hong Kong. Of course, the appropriate country of origin test will require some input from economists familiar with China-Hong Kong-United States trade.

One thing is certain: if MFN were revoked, the failure to protect Hong Kong would severely dishonor our professed principles of protecting the interests of the innocent. These interests should be as important as our revulsion to China's human rights abuses.

## Conditional Extension of MFN

It has been suggested by certain prominent individuals that MFN may be re-extended on further conditional bases, such as concrete assurances of further progress in human rights. As a purely logical matter, the conditional extension of MFN to communist economies is precisely the purpose of Jackson-Vanik, and further conditions are redundant. Alternatively, Congress could impose its own public "wish list" of human rights issues, creating an unique, unfortunate precedent in basic bilateral trade issues. This postponement will clearly not resolve the unpredictability U.S. business people currently face. It also encourages all enterprises in China to export their products in large volume to the United States, without regard to long term injurious effect on the United States, on the assumption that higher tariffs may shortly make their products much more expensive. The approach also assumes the Chinese leadership will react less adversely to statutory conditions towards continuation of MFN, compared to diplomatic means. Because of China's long antipathy to the West and its leadership's interest in "saving face", it is not safe to assume that a public demand will be any more effective than quiet diplomacy.

In all likelihood, if MFN were conditionally extended, the question will remain whether we wish our relations with China and the Chinese people to be propelled backwards to an era we seem to have forgotten. In addition, Congress and the Administration will likely still not have thoroughly considered, or, in some instances, reconsidered, more surgical measures at our control to effect changes in Chinese politics and reduce injury to the innocent.

Whatever action Congress decides upon, one thing is certain: the broad, coarse brush of unconditionally removing MFN treatment would not best serve U.S. economic and human rights interests at this time. It would also not effectively express our concern for the well-being of the people of China.

June 18, 1990

The views expressed are solely those of the author, and do not represent the interest of any client or government.

Chairman GIBBONS. Mr. Feinerman.

## STATEMENT OF JAMES V. FEINERMAN, EXPERT ADVISER ON CHINA, INTERNATIONAL HUMAN RIGHTS LAW GROUP, AND ASSOCIATE PROFESSOR, GEORGETOWN LAW CENTER, SPECIALIZING IN CHINESE LAW

Mr. FEINERMAN. Mr. Chairman and members of the subcommittee, thank you for holding these hearings and for providing an opportunity for me to present the views of the International Human Rights Law Group, on whose behalf I testify today. The law group's Project Tiananmen is currently helping over 80 applicants for asylum and immigration relief with the assistance of 40 lawyer-volunteers.

The issue of extending most-favored-nation trade status for the People's Republic of China provides a focus for consideration of the importance of human rights concerns in formulating U.S. policy toward the People's Republic of China. Despite the agonizing choices which must be faced, some of which may lead in the short term to additional hardships for certain segments of Chinese society, the International Human Rights Law Group believes that the United States should deny an extension of MFN, or, at the very least, make extension conditional upon demonstrated improvements in the Chinese human rights regime.

In the long run, clear linkage of our trade and foreign policy to the promotion of human rights in China will best serve the interests of the peoples of the United States and the People's Republic of China.

At the outset, it is important to note that in the year following the imposition of martial law in Beijing and Tibet and the massacre in and around Tiananmen Square, there have been few improvements in China's human rights climate. Ironically, what little positive change has occurred was mainly due to the threat of withdrawal of China's MFN status before President Bush's announcement last month that he would recommend renewal.

In a patent attempt to influence the policy debate in the United States, the Beijing Government announced releases of 211 wrongfully detained political prisoners as well as the lifting of martial law in the Tibetan capital of Lhasa. In similar fashion, the Chinese leadership cynically timed its earlier announcement of the release of almost 600 other detainees and the ending of martial law in Beijing to coincide with the debate over the Pelosi bill.

Virtually every step forward, however, has been accompanied by two steps backward. Just this month, a new wave of unprovoked assaults on foreign journalists once again illustrated the Government's penchant for intimidation.

The handful of nations which lack MFN status include the worst violators of human rights: Cambodia, Cuba, North Korea, the U.S.S.R., and Vietnam.

There is precedent, however, for denial of MFN status to previously favored nations on human rights grounds. Both Poland, in 1982, and Romania, in 1987, experienced such denials as the result of documented and widely condemned abuses of human rights.

Failure to take similar action now with respect to the People's Republic of China raises legitimate questions about the evenhanded application of human rights standards to all who violate them by a U.S. Government which frequently proclaims their universality. It may also be worth considering, in the light of subsequent developments in both of those Eastern European countries, where denial of MFN was linked to human rights abuses, whether it is necessarily true that MFN cannot be employed to influence significant political change.

I won't detail further, because you have heard some eloquent testimony, both today and Tuesday, about some failures of our past year's policy of accommodation and reaching out toward China.

The abuses of political prisoners, the arrests of many for practicing their religions, including—as well as Roman Catholic priests and Protestant ministers, a large number of Buddhist monks and nuns, particularly, in Tibet.

I would also mention, as is well known, the prominent dissident, astrophysicist Fang Lizhi and his wife, Li Shuxian, remain involuntary guests of the United States in our Embassy in Beijing, and Mr. Fang is unable to resume his career, either inside China or to leave the country.

And China has not demonstrated the kind of responsible attitude in the international arena commensurate with some sort of indication of moderation that foreign criticism and contacts were supposed to bring about.

Reliable reports details sales of surface-to-surface shortrange ballistic missiles to Iran, exports of medium range missiles to a variety of buyers, with Iran, and sales of M-9 medium missiles to Syria and Libya.

Moderate leadership is obviously exercising little influence, and is one of the greater threats to stability of the world community. In the East Asian arena, particularly, China remains the best friend and supporter to two of the most menacing regimes: North Korea and the Khmer Rouge. It continues to arm the Khmer Rouge and permit it to refuse to cooperate in international negotiations intended to improve the lot of that unhappy nation.

What should be the response of the United States? It has been argued that the United States and other democratic nations should resist their impulse to take merely symbolic or moral stands related to human rights. The President and his advisers, convinced of their understanding of the current Chinese leadership and relying upon a close relationship with certain individual leaders, remain willing to continue China's MFN status.

Their conviction, and that of many business leaders, is that nothing the United States does with respect to MFN will influence China's human rights policy and that profitable opportunities will be lost to our competitors in international trade.

Yet, China's involvement in the international economy, reliance on U.S. markets for its export sales, and growing dependence on both public and private international financial assistance all offer promise of some success from imposing sanctions upon China.

Thus far, Congress has failed to enact the wide range of sanctions it might have in areas such as trade, diplomatic relations and financial assistance; the President has announced certain measures but feels free to modify or to abandon them at his own discretion, lessening their impact upon China.

U.S. leverage in the case of China is not inconsiderable. Denying MFN status to China would raise tariffs on 90 percent of China's exports to the United States. The United States is China's third largest trading partner, whereas China is only the 13th largest trading partner of the United States.

The impact of trade restrictions will be much more keenly felt in the People's Republic of China, and the United States will have no trouble rebounding. Furthermore, increasing bilateral trade between the United States and the People's Republic of China has resulted in a substantial trade deficit for the United States, estimated during the first 2 months of 1990 to amount to $1.3 billion or an annual rate of $11 billion. Until the Chinese retaliate with countermeasures, import restrictions or denial of MFN would only reduce the U.S. bilateral trade deficit with China.

More problematic is the effect of denial of MFN on the economically advanced areas of coastal China and on Hong Kong. There is evidence that a large number of jobs would be lost in regions which have implemented economic reforms, pushed decentralization farthest, and resisted the Central Government's hard line most staunchly.

In Hong Kong, where a decade of investment in the People's Republic of China hinterland has inextricably bound the economy of Hong Kong with that of Guangdong Province, export-related enterprises will suffer from the loss of MFN.

Yet, many of the economic benefits from foreign trade redound to the Central Government, which is increasing its control over foreign trade activities of private and collectively owned enterprises as part of the political crackdown. Hong Kong's losses can, through the intercession of well-connected Hong Kong businessmen with their Chinese Government contacts, be used to press further the point that revocation of China's MFN status would make.

In the light of these circumstances, the intransigence of China's leaders, the continuing violations of human rights and the limited impact on the United States, as well as limitations on the exit from China of students and others who would go abroad, the International Human Rights Law Group strongly recommends that the U.S. Congress vote to deny extension of MFN status to the People's Republic of China.

In contrast to the limited sanctions already enacted by the President, this sanction promises to be meaningful and is less subject to executive discretion.

Any subsequent extension of MFN should be strictly conditioned of MFN should be strictly conditioned upon the occurrence of certain events and commitment to policy changes on the part of the People's Republic of China Government, including:

Unconditional release of all who have been detained or imprisoned for participation in the democracy movements of the past 12 years, from Democracy Wall in 1978, as well as the spring of 1989; an amnesty for all current and former political prisoners, including complete restoration of their political rights and removal of any stigma or disadvantage attendant to their incarceration; an end to extrajudicial killing, excessive resort to the death penalty as criminal punishment, the use of torture, threat and intimidation by Chinese security forces against dissidents, nonviolent demonstrators and prisoners; permission for Fang Lizhi and Li Shuxian to leave the People's Republic of China—or to remain there, if they choose—peacefully and without fear of intimidation or reprisals; and the codification and public dissemination of China's emigration policies, in a form which demonstrates compliance with the dictates of the Jackson-Vanik amendment.

If the People's Republic of China does not comply with all these conditions, MFN status should not be extended. Chinese compliance should be monitored on an annual basis, with the threat that MFN status will be withdrawn for any failure to remain in compliance. In addition, the Congress should consider legislation which permits the immediate termination of MFN status if any event similar to that of last June 3-4 in and around Tiananmen Square recurs.

Almost a decade ago, in the wake of Wei Jingsheng's arrest for involvement in the Democracy Wall movement of the late 1970s, the International Human Rights Law Group recommended against extension of MFN to the People's Republic of China. Today, Wei languishes in prison, still the victim of a 15-year sentence for the nonviolent advocacy of political change in China.

The human rights situation in China over the intervening 10 years has improved very little; it may even have regressed. Perhaps it is in order now to try something other than business as usual to impress upon the Chinese leadership that we do take human rights seriously. As Nelson Mandela's upcoming visit so well illustrates, sanctions judiciously and consistently applied can prove very effective.

Thank you, Mr. Chairman.

[The statement of Mr. Feinerman follows:]

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

## HEARINGS ON UNITED STATES-PEOPLE'S REPUBLIC OF CHINA (PRC) TRADE RELATIONS, INCLUDING MOST-FAVORED-NATION TRADE STATUS FOR THE PRC

Position of the International Human Rights Law Group
James V. Feinerman
Associate Professor, Georgetown Law Center

Thursday, June 21, 1990

Mr. Chairman and Members of the Subcommittee:

Thank you for holding these hearings and for providing an opportunity for me to present the views of the International Human Rights Law Group, on whose behalf I testify today. The issue of extending Most-Favored-Nation (MFN) trade status for the PRC provides a focus for consideration of the importance of human rights concerns in formulating United States policy towards the PRC. Despite the agonizing choices which must be faced, some of which may lead in the short term to additional hardships for certain segments of Chinese society, the International Human Rights Law Group believes that the United States should deny an extension of MFN - or, at the very least, make extension conditional upon demonstrated improvements in the Chinese human rights regime. In the long run, clear linkage of our trade and foreign policy to the promotion of human rights in China will best serve the interests of the peoples of the United States and the PRC.

Current Conditions in the PRC. At the outset, it is important to note that in the year following the imposition of martial law in Beijing and Tibet and the massacre in and around Tiananmen Square there have been few improvements in China's human rights climate. Ironically, what little positive change has occurred was mainly due to the threat of withdrawal of China's MFN status before President Bush's announcement last month that he would recommend renewal. In a patent attempt to influence the policy debate in the United States, the Beijing government announced releases of 211 wrongfully detained political prisoners as well as the lifting of martial law in the Tibetan capital of Lhasa. In similar fashion, the Chinese leadership cynically timed its earlier announcement of the release of almost six hundred other detainees and the ending of martial law in Beijing to coincide with the debate over the Pelosi bill.[1] Virtually every "step forward," however, has been accompanied by "two steps backward." Martial law ended only to be replaced by restrictive new legislation effectively eliminating freedoms of the press, speech, assembly and demonstration purportedly guaranteed by the 1982 PRC Constitution. As some dissidents were freed in May, others who called for the release of their comrades still in jail were spirited away by the authorities. Just this month, a new wave of unprovoked assaults on foreign journalists once again illustrated the government's penchant for intimidation.[2]

Many promised concessions to international concern, such as a full accounting of those killed during the Beijing Massacre or detained in the ensuing crackdown, have never materialized. Vicious anti-American propaganda continues to spew forth from the usual sources of disinformation in Beijing, while the Chinese populace tunes in to Voice of America, the BBC or Radio Australia for uncensored factual information about conditions in their own country. New limits on Chinese students' freedom to study abroad have been rumored, in no small part to remind them of the government's power to determine their futures. Some students must work for five years after college graduation to be able to pursue graduate studies abroad; others must "repay" an amount calculated to cover the cost of their undergraduate educations; still others have been sent to remote rural job placements to discourage them from applying for study abroad.[3] A recent defector from the Chinese Embassy in Washington has described a policy of harassment aimed at Chinese students here in the United States who have been active in the pro-democracy movement, employing student informers.[4] Such activities are not only repugnant to basic human rights norms and American values but also violate United States law.

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[1] H.R. 2712, The Emergency Chinese Immigration Relief Act.

[2] Nicholas D. Kristof, "Foreign Reporters Complain to China," The New York Times, June 6, 1990, p. A6.

In the light of these continuing violations of human rights and without any prospect of moderation in the near future, the circumstances in the PRC would seem to indicate a need for sterner sanctions.

The Uses of MFN Status. It has been argued by some that MFN is the normal course of economic relations between the United States and other nations and should not be "politicized." Yet almost from the moment of its modern incarnation in United States trade relations following the post-war founding of the General Agreement on Tariffs and Trade (GATT), political considerations have been intimately linked with MFN. During the Korean War, President Truman suspended MFN status for any country "dominated by a communist system." Selective restoration of MFN status to certain communist countries has always been connected with improvement in human rights in those nations. Indeed, the handful of nations which lack MFN status include the worst violators of human rights: Cambodia, Cuba, North Korea, the U.S.S.R. and Vietnam.

Since 1974, the Jackson-Vanik Amendment to the Trade Act of 1974[5] has permitted the restoration of MFN status to "non-market economies" only if those countries permit substantially free emigration of their citizens. Only when the President reports to Congress that such a country is not in violation of the freedom-of-emigration provision of the Jackson-Vanik Amendment and neither house of Congress disapproves of the President's report can MFN be extended or restored. In practice, grant of MFN status to a country under the Jackson-Vanik Amendment becomes mostly automatic after the initial determination.

There is precedent, however, for denial of MFN status to previously "favored" nations on human rights grounds. Both Poland, in 1982, and Romania, in 1987, experienced such denials as the result of documented and widely condemned abuses of human rights. Interestingly, in neither case did the abuses complained of relate directly to freedom of emigration. In Poland, the attempt to crush the independent Solidarity trade union movement and related political strictures was the cause of MFN denial; in Romania, the excesses of the then-dominant Ceausescu regime in attempting to restrict the exercise of a wide range of rights led to the denial. The seriousness of the violations in China over the past year certainly rise to the same level as those in Poland and Romania did. Failure to take similar action now with respect to the PRC raises legitimate questions about the even-handed application of human rights standards to all who violate them by a United States government which frequently proclaims their universality. It may also be worth considering, in the light of subsequent developments in both of those Eastern European countries where denial of MFN was linked to human rights abuses, whether it is necessarily true that MFN cannot be employed to influence significant political change.

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[3]. Ann Scott Tyson, "Tiananmen Nightmare Lingers," Christian Science Monitor, November 30, 1989, p. 6.

[4]. Don Oberdorfer, "Chinese Envoy Asks Political Asylum," Washington Post, May 5, 1990, p. A9.

[5]. 19 U.S.C. Sec. 2432(a)(1-3).

Evidence of the Failure of the Past Year's Policies. Many who have argued for extension of China's MFN status maintain that denial endangers the remnant reformist faction in the Chinese leadership and that the international community cannot afford to isolate China. Yet, in practical terms, there has been very little to show for the accommodationist policy towards China which the Bush administration, as well as foreign governments, have urged. China's prisoner releases and lifting of martial law, as discussed above, have been limited, long overdue and calculated to influence the policies of foreign decisionmakers.In Tibet, the martial law regime was extreme in its brutality, and its removal was merely cosmetic; the repression has successfully eliminated any possibility of peaceful protest or political opposition asserting itself. Of 600 arrests during the past year, over half have been monks and nuns, the spiritual leaders of the Tibetan people. Many of those arrested have been cruelly tortured, even physically mutilated, by their Chinese captors.

The most prominent Chinese dissident, the astrophysicist Fang Lizhi, and his wife, Li Shuxian, remain in the United States embassy in Beijing, unable to resume his career inside China or to leave the country. The Chinese government has made numerous demands on the United States in exchange for safe passage of Fang and Li, including the resumption of all World Bank lending, which the Bush administration has thus far resisted. Similarly, the PRC has insisted that Fang, whose involvement with last year's democracy movement was slight, confess to "crimes" and agree not to criticize the Chinese government outside of China if he is permitted to leave. Discussions are, as a result, at an impasse; Fang and Li continue as unwilling guests of the United States in their own country.[6]

Nor has China demonstrated a responsible attitude in the international arena in exchange for moderation in foreign criticism and for continuation of contacts. Reliable reports detail sales of surface-to-surface short-range ballistic missiles to Iran, exports of medium-range missiles to a variety of buyers, a military technology transfer agreement with Iran and sales of M9 medium-range missiles to Syria and perhaps to Libya. Moderate leadership is obviously exercising little influence in this sphere, and China is emerging as one of the greater threats to the stability of the world community. In the East Asian area, China remains best friend and supporter of the two most menacing regimes in the region - North Korea and the Khmer Rouge faction in Cambodia. It continues to arm the Khmer Rouge and to permit it to refuse to cooperate in international negotiations intended to improve the lot of that unhappy nation.

What Should Be the Response of the United States? It has been argued that the United States and other democratic nations should resist their impulse to take "merely symbolic" or "moral" stands related to human rights. The President and his advisors, convinced of their understanding of the current Chinese leadership and relying upon a close relationship with certain individual leaders, remain willing to continue China's MFN status. Their conviction, and that of many business leaders, is that nothing the United States does with respect to MFN will influence China's human rights policy and that profitable opportunities will be lost to our competitors in international trade. Yet China's involvement in the international economy, reliance on United States markets for its export sales, and growing dependence on both public and private international financial assistance all offer promise of some success from imposing sanctions upon China. Thus far, Congress has failed to enact the wide range of sanctions it might have in areas such as trade, diplomatic relations and financial assistance; the President has announced certain measures but feels free to modify or to abandon them at his own discretion, lessening their impact upon China.

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[6] Robert Pear, "China Ties New Demand to Dissident's Fate," The New York Times, April 4, 1990, p. A12.

Although it might be argued that the well-established relations we have developed with the PRC over the past decade since normalization make any use of sanctions risky, the reluctance of the Chinese to "turn back the clock" should also not be underestimated. The near universal expression of shock and outrage - not only in the United States but in virtually every one of China's important trading partners - has made the PRC leadership aware that it was they who triggered the deterioration in relations. China's rulers may not be able, for obvious political reasons, to acknowledge their responsibility, but they will have to conduct foreign relations in a climate of their making.

United States leverage in the case of China is not inconsiderable. Denying MFN status to China would raise tariffs on 90% of China's exports to the United States. The United States is China's third largest trading partner, whereas China is only the thirteenth largest trading partner of the United States. The impact of trade restrictions will be much more keenly felt in the PRC, and the United States will have no trouble rebounding. Furthermore, increasing bilateral trade between the United States and the PRC has resulted in a substantial trade deficit for the United States, estimated during the first two months of 1990 to amount to $1.3 billion or an annual rate of $11 billion.[7] Until the Chinese retaliate with countermeasures, import restrictions or denial of MFN would only reduce the United States bilateral trade deficit with China. Finally, ample sources of alternative goods to those now imported from China exist; price increases to consumers (or restriction of choice of good available) would be temporary and minimal. At very little cost to the United States, an important statement about our serious commitment to human rights could be made.

More problematic is the effect of denial of MFN on the economically advanced areas of coastal China and on Hong Kong. There is evidence that a large number of jobs would be lost in regions which have implemented economic reforms, pushed decentralization farthest and resisted the central government's hard line most staunchly. In Hong Kong, where a decade of investment in the PRC hinterland has inextricably bound the economy of Hong Kong with that of Guangdong province, export-related enterprises will suffer from the loss of MFN. Yet many of the economic benefits from foreign trade redound to the central government, which is increasing its control over foreign trade activities of private and collectively owned enterprises as part of the political crackdown. Hong Kong's losses can, through the intercession of well-connected Hong Kong businessmen with their Chinese government contacts, be used to press further the point that revocation of China's MFN status would make.

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[7] See also Heritage Foundation, Asian Studies Backgrounder, "Washington's Agonizing Decision: To Extend or Revoke China's Most-Favored-Nation Trade Status," May 8, 1990, p. 7.

In the light of these circumstances - the intransigence of China's leaders, the continuing violations of human rights and the limited impact on the United States, as well as limitations on the exit from China of students and other who would go abroad - the International Human Rights Law Group strongly recommends that the United States Congress vote to deny extension of MFN status to the PRC. In contrast to the limited sanctions already enacted by the President, this sanction promises to be meaningful and is less subject to executive discretion.

Any subsequent extension of MFN should be strictly conditioned upon the occurrence of certain events and commitment to policy changes on the part of the PRC government including:

--unconditional release of all who have been detained or imprisoned for participation in the democracy movements of the past twelve years, from Democracy Wall in 1978 as well the spring of 1989;

--an amnesty for all current and former political prisoners, including complete restoration of their political rights and removal of any stigma or disadvantage attendant to their incarceration;

--an end to extrajudicial killing, excessive resort to the death penalty as criminal punishment, the use of torture, threat and intimidation by Chinese security forces against dissidents, non-violent demonstrators and prisoners;

--permission for Fang Lizhi and Li Shuxian to leave the PRC (or to remain there, if they so choose) peacefully and without fear of intimidation or reprisals; and

--the codification and public dissemination of China's emigration policies, in a form which demonstrates compliance with the dictates of the Jackson-Vanik Amendment.

If the PRC does not comply with all these conditions, MFN status should not be extended. Chinese compliance should be monitored on an annual basis, with the threat that MFN status will be withdrawn for any failure to remain in compliance. In addition, the Congress should consider legislation which permits the immediate termination of MFN status if any event similar to that of last June 3-4 in and around Tiananmen Square recurs.

Conclusion. Almost a decade ago, in the wake of Wei Jingsheng's arrest for involvement in the Democracy Wall movement of the late 1970s, the International Human Rights Law Group recommended against extension of MFN to the PRC. Today Wei languishes in prison, still the victim of a fifteen-year sentence for the non-violent advocacy of political change in China. The human rights situation in China over the intervening ten years has improved very little; it may even have regressed. Perhaps it is in order now to try something other than business as usual to impress upon the Chinese leadership that we do take human rights seriously. As Nelson Mandela's upcoming visit so well illustrates, sanctions judiciously and consistently applied can prove very effective.

Chairman **Gibbons**. Thank you, sir.

## STATEMENT OF LIN YU DENG, VISITING PROFESSOR OF CHINESE LANGUAGE, BOWDOIN COLLEGE, BRUNSWICK, MAINE

Mr. **Deng**. My name is Deng Lin Yu. I came to the United States in 1987 to become visiting professor of Chinese language and culture at Bowdoin College. Prior to that I was dean of the English faculty at Beijing Normal College. I have attached a copy of my resume to cover my background more fully.

I would like to urge the committee to retain the most-favored-nation status of China.

After a lifetime of teaching students—both Chinese and more recently American—I can understand the urge to retaliate as an outlet for feelings of indignation. However to abandon MFN status as the way of expressing these feelings only hurts the people of China.

As a Chinese scholar, I am acutely aware that China will respond sharply. The people of China will think badly of the United States. Historically China has been self-contented and if the MFN status is denied she would again turn inward, closing out the rest of the world.

The workers are the ones who would be the most immediately affected by the termination of MFN status. Although the dollar amount of exports from China may not seem significant in the United States, in the contest of the Chinese standard of living it is. I have no figures on the dollar amount of exports per Chinese worker, it is a significant amount when compared to the $15 or $20 a month wage received by the average Chinese.

While recognizing the economic effects, it is not this that I am compelled to concern myself with. As an intellectual I know that exchange of ideas, of information, of changes in the whole system of education, as well as the content of bodies of knowledge is related to the openness or closedness of the society in which it functions. Educational and cultural exchange follows trade. Without trade there is little opportunity for any exchange.

In the last few years I have witnessed in this country, the growth of interest in my field—Asian studies and earlier in my field in China—American language and culture. In addition to students, others have participated in the revived interest which I have noted. American tourists in China have increased in numbers. Some of these Americans are of Chinese extraction, rediscovering their roots and reestablishing old bonds. For the Chinese people they are trusted informants about the United States. Many other specialized groups, for example, legal, medical, engineering—meet to exchange information in their fields.

In today's world of nuclear horrors it is essential to nourish all of these threads that bind us.

Chairman **Gibbons**. Thank you.

[An attachment to the statement follows:]

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Resume-Deng

## PERSONAL RESUME

1. Name : Deng Lin-yu
2. Date of Birth : April 26, 1938
3. Place of Birth: Chongqing, Sichuan Province
4. Nationality : Chinese
5. Working place : Beijing Normal College of Foreign Languages
6. Education :

| | |
|---|---|
| 1982 (7-12) | Visiting Scholar to SUNY, Buffalo : American Studies and TESL. Diploma of TESL by SUNY, Buffalo. |
| 1956 - 1961 | English Department, Beijing Institute of Foreign Languages |

7. Working Experience:

| | |
|---|---|
| 1987 -1990 | Visiting Professor of Chinese Language, Bowdoin College, Brunswick, Maine |
| 1989 (6-8) | Master teacher of Chinese Language and member of Dartmouth/Dana Collaborative, Summer Program, Dartmouth College |
| 1986 - 1987 | Associate Professor of English & Translation. Chairman, English Department, BNCFL |
| 1984 - 1985 | Lecturer*; English Grammar & Translation, BNCFL.<br>Guest Professor; Chinese History & Culture(to American students at Beijing)<br>Chairman, English Department, BNCFL |
| 1976 - 1983 | Lecturer; English Language & Analytical Reading,Translation (E-C & C-E) & English Grammar, BNCFL<br>Chairman, English Department, BNCFL |
| 1961 - 1976 | Assistant Professor of English, Beijing School of Foreign Languages (No promotions possible in those years in China) |

* a lecturer in China is a status higher than an assistant professor, next to a professor

8. Organizations:

---Beijing Association of Translators, member of the Standing Committee of BAT

---China Association of Foreign Languages Teaching, member of the Committee of CAFLT

9. Publications:

--English Through Broadcast Series, Book 5 & Book 7 (A series of nine books all together used throughout China P.R., with 600.000 copies for the first printing.)
People's Publishining House ,Beijing, China P.R. 1973

--English Text Book I & II (For 1-st year students,English Department) Beijing Foreign Languages School, Beijing, China 1974-1975

--Theoretical Grammar of the English Language (Course book for 3-rd year college students) BNCFL, Beijing, China 1982

--Chinese History & Culture (Course book for over-sea American Students in BNCFL )
Beijing Normal College of Foreign Languages 1984

--English-Chinese Dictionary (Concise)(joint authors of three)
Publishing House of Beijing Foreign Language Teaching & Research 1986-1987
(under printing)

--The Four Fundamental Components in the Procedure of Foreign Languages Teaching
Delivered at the International Round-Table Conference of Foreign Languages Teaching,
Beijing, China 1983

--On Foreign Language Teaching and Its Methodology
Journal of Beijing Normal College of Foreign Languages, Beijing, China 1985

--Translation (over 500.000 words, including stories, journal, science & technology, documents etc.) 1976-1986

10. Courses to Offer:

a. Chinese Language courses : beginning, intermediate, and advanced courses of modern mandarin , spoken or written (both Fantizi and Jiantizi) courses.

b. Chinese History and Culture : A survey course of Chinese history from Xia dynasty to 1976 and the development and specific areas of the Chinese culture in different dynasties. This is a course flexible from eight lectures, twelve lectures to sixteen lectures with each lecture lasting an hour + discussion

c. Chinese Culture : A course introducing basic knowledge of Chinese culture, altogethor twelve sessions including: History, Geography, art (music and musical instruments, traditional Chinese painting, Chinese calligraphy & Chinese cooking) and literature (classical & contemporary,with emphasis on Tang & Song poems and lyrics, Yuan drama and the four most famous fictions in history).

d. Chinese Literature :
1) A survey course from ancient lyric poetry to modern literature of May 4,1919. (eight sessions)
2) Selected Reading of Contemporary Chinese literature (Ten most influential writers & poets starting from Lu Xun to Wang Meng) sixteen sessions
3) The four most famous Chinese fictions in history:Three Kingdoms,The Water Margins, Dream of the Red Chamber and The Monk goes to the West. (with episodes of video tapes),three sessions for each book , including a) introduction b) reading c) discussion
4) Four famous Chinese poets : Li Bai, Du Fu, Su Shi & Bai Ju-yi.
Two sessions each ; an introduction and one reading.
5) The two famous woman poets in history:Li Qing-zhao & Cai Wen-ji. Three sessions each ; a) introduction b) reading c) discussion.

E. Translation : English --- Chinese ; Chinese --- English

Chairman Gibbons. This panel helps us put in perspective the difficult problem we have in intervening in a country that is so far away and so much larger in population than this country, as well as the complexities of our background and our civilizations, and the comparatively insignificant amount of trade that we carry on. I realize trade is important for the pocketbook. I sometimes think it is important to help build understanding and to help bridge cultural differences. We are shocked as we learn more about the internal affairs of other countries, which has been buried many times in the past by an insignificant study of history and an insignificant interest in what goes on from day to day.

I think all of us hope for a kinder, gentler America. We certainly do in Florida, after a crazed fiend killed eight people last weekend. We want a kinder, gentler world, and certainly a kinder, gentler China.

Mr. Schulze.

Mr. Schulze. Thank you, Mr. Chairman.

Just one question of Dr. Li.

Doctor, can you tell me about the Chinese Independent Union at the University of Wisconsin. Is that a group that you are a part of?

Mr. Li. No, I am not a member of the Chinese Independent Union. I am representing myself.

Mr. Schulze. What group are you representing?

Mr. Li. I am representing Chinese student scholars who support the most favored status for China at the Medical College of Wisconsin. Also, I submitted to the committee the signatures of 53 students who share the same view as I.

Mr. Schulze. Fifty-three. The reason I ask is that I have a letter from three Chinese organizations which they claim to represent the overwhelming majority of Chinese student body in the State of Wisconsin.

That is the Chinese Student Independent Union at the University of Wisconsin, Madison, Chinese Association, University of Wisconsin, Milwaukee, and Chinese at Marquette, which they state publicly they are overwhelmingly opposed to the continuation of most-favored-nation status.

Mr. Li. How many people?

Mr. Schulze. That is why I am asking.

Mr. Li. That is the point I tried to make.

Mr. Schulze. In their letter they say the overwhelming majority and are you telling me 57?

Mr. Li. They don't have numbers, Mr. Schulze. That is the point I tried to make.

I said that although there is no accurate survey of the percentage of Chinese students and scholars who support the continuation, it is the majority of the Chinese students who are supportive. The independents. How many people are there? Do they have signatures?

Mr. Schulze. I guess we do not have an accurate count. I guess some people are saying they represent the majority that others are saying they represent.

Mr. Li. I have exact numbers from my school. I have 30 students in my school.

Mr. Schulze. Thirteen.

Mr. **Li**. Thirty, 3-0. Ten people signed their name, six people agreed but they did not want to sign.

Seven people are not interested.

Two people have different views who support the termination.

What my point is, that although those organizations say they are representing the majority of people, my survey—since it is a limited time, I couldn't survey those hundreds of people—differs.

Mr. **Schulze**. Chinese Independent Union claims to represent some 40,000 Chinese students, the Federation of Chinese Students and Scholars.

Mr. **Li**. I would be included as one of the 40,000.

Mr. **Schulze**. Is that the total number in the United States?

Mr. **Li**. Exactly. The Chinese Independent Union was formed last year after the Tiananmen incident. I also flew to Chicago to demonstrate against the Chinese Government's action at Tiananmen Square. I also appeared on Milwaukee TV. I disagree with the Chinese Communists' actions.

However, I do not think in the matter of the most favored nation they represent us.

From my point of view the majority view is the opposite. The majority supports the continuation of MFN.

Mr. **Schulze**. Dr. Li, the so-called sanctions which have been taken so far, do you think they have had an effect?

Mr. **Li**. I think that Chinese history shows just the opposite effect. The Chinese leadership may close the door and create a more anti-American movement.

Mr. **Schulze**. Isn't there a time we have got to say freedom and democracy are important and maybe it is worth a little suffering? A little pain.

Mr. **Li**. It is not a little suffering. China has 1.1 billion people.

Mr. **Schulze**. Are you saying the leaders are willing to make those people suffer just to prove a point?

Mr. **Li**. No, but if America terminates MFN, the people will be unemployed in regions like Guangdong or Shanghai.

Mr. **Schulze**. We are told they already closed down hundreds of entrepreneurs. Aren't they unemployed? Is there no concern for them?

Mr. **Li**. That is the point. The Chinese leaders, as far as I know, all read the newspapers and look at the documents, are willing to have the open door policy.

Mr. **Schulze**. They are willing to open?

Mr. **Li**. Willing to open.

Mr. **Schulze**. When? We have had a year.

Mr. **Li**. For last 10 years they have had an open door, right? I do not think after Tiananmen Square they want to close it. They want an open door definitely.

Mr. **Schulze**. They have had an opportunity in the last year to ease that policy and to open that door and to——

Mr. **Li**. I am not saying I am antistudent movement in Tiananmen Square. I am talking about the long-term influence. This is a very delicate time for China to support political economic reformers.

And, you know, frankly speaking, the termination only help the hardliners.

It is so easy for them to say Americans are anti-us so why are you supporting them.

And it would make the hardliners so happy. But not the other political and economical reformers——

Mr. SCHULZE. It seems to me it does send a very strong message that we do not want to do business with nations who treat students in that fashion.

Mr. LI. I think you have already sent a very strong message.

Mr. SCHULZE. Has there been any response?

Mr. LI. Response—of course there is response. I think there is some response.

Mr. SCHULZE. I would like to see it. I thank you. I thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

I want to thank all the panel very much for their participation.

Now, a panel composed of Fashion Accessories Shippers Association, Joel K. Simon, counsel; Stephen G. Shank, chairman and chief executive officer, Tonka Corp.; Tom Cornish, president, Takson Down Manufacturing, Inc.; and William B. Abnett, executive director, Washington State China Relations Council.

## STATEMENT OF JOEL K. SIMON, COUNSEL, FASHION ACCESSORIES SHIPPERS ASSOCIATION

Chairman GIBBONS. Mr. Simon.

Mr. SIMON. Mr. Chairman, Mr. Schulze, thank you very much for the opportunity to allow us to appear here today before you to give our views on this most serious topic.

My name is Joel Simon. I am customs and international trade counsel to Fashion Accessories Shippers Association.

FASA is an association comprised of 72 member companies, American companies, who import handbags, luggage, small leather goods and related products from many countries in the Far East and other places throughout the world.

The members are located throughout the United States and are comprised mainly of small and medium sized privately owned companies, employing less than 500 workers each, but comprising in total, over 10,000 American workers.

At the present time, approximately 87 percent of all the handbags sold in this country are imported, and FASA members account for 75 percent of its imports.

In 1989, over $450 million worth of handbags, luggage and related articles were imported from the People's Republic of China. This amount accounts for almost half of all imports of those categories of merchandise into the United States.

The duties on these products range from 5.5 to 20 percent and most of the products in the categories of manmade fiber luggage, handbags, et cetera, are the high rate of 20 percent.

Moreover, most of the textile bags that are imported into the United States become subject to the multifiber arrangements and are subject to quotas and visa requirements from China.

Should China lose most-favored-nation status the duties on most of the products of our members will increase from 2½ to 10 times in duty.

For example, the duty on ladies handbags will go from 9 to 35 percent, while manmade fiber handbags will increase from 20 to 45 percent.

The loss of MFN status would be a great blow to our industry. Many of our sales would be lost.

While we import half of our products from China the balance come from such countries as Thailand, the Philippines, Malaysia, Taiwan, Korea, and Hong Kong.

With the additional duty, these products from China cannot compete.

At the present time we estimate the average labor cost per worker in China is approximately $100 a month. That means these workers earn somewhere around the area of 40 to 50 cents an hour. While that does not seem like a lot in American standards, to the Chinese it is far above what the average Chinese worker earns.

Most of the factories that produce this merchandise are located in and around the Hong Kong area in the Shengen Special Zone and Guangdong Province and Guang Zhai city. These people are friends of the United States. They have come to rely upon American exports for their livelihood.

Many people have traveled from all parts of China to work in these areas. They work at factories that strictly produce merchandise for export to the United States.

We estimate that in our industry alone almost 100,000 workers in China are producing these items.

We do not believe we can continue to sell these products if we do not have most-favored-nation status.

That may mean for some of our companies they may have some dislocations and some companies may in fact go out of business because of over reliance upon Chinese supplies.

For the Chinese worker we believe this would be disastrous. A loss of 100,000 jobs in China can easily be foreseen in our industry, if not immediately, certainly within a number of years.

As I stated, we cannot compete with the high rates of duty with the other countries in Southeast Asia that can produce similar items.

We cannot go to these other countries overnight. It would take time to move production. But certainly that production would start immediately. And once it moved to Thailand, to the Philippines, to Malaysia and other countries, it is not likely to return. We would be leaving the workers in China to fend for themselves, to suffer whatever they have to suffer, because we don't believe there are the services available in China that would give them unemployment insurance or take care of these people. They must work in order to eat, in order to survive.

I would also like to address some remarks to the question of extension of MFN with conditions.

We believe an extension of MFN with conditions is tantamount to giving us a 1-year extension of most-favored-nation status and then potentially closing it off. We cannot run the risk, our members cannot run the risk that MFN status would be lost within 1 year or 6 months if the Chinese Government does not agree or comply with the conditions that are proposed.

Extension with conditions means that our importers would have to look for other factories immediately.

It does not mean that we will continue to expand our productions into China. It does not mean we will continue to make—place orders for merchandise in China.

What it will do is merely give us a chance to wind up our affairs in China and move to other sources of supply.

I would like to thank you gain for this opportunity. I am available for questions.

Chairman GIBBONS. Thank you, Mr. Simon.

[The statement of Joel K. Simon follows:]

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# TESTIMONY OF THE FASHION ACCESSORIES SHIPPERS ASSOCIATION ON U. S. - CHINA TRADE RELATIONS BEFORE THE SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS

BY: JOEL K. SIMON, ESQ. COUNSEL TO THE ASSOCIATION

JUNE 21, 1990

My name is Joel K. Simon. I am a partner in the law firm of Serko and Simon, One World Trade Center, New York, NY 10048, and I am Customs and International Trade Counsel to the Fashion Accessories Shippers Association (FASA).

FASA is a trade association located a 330 Fifth Ave., New York, NY. The association has seventy-two (72) member firms who import handbags, luggage, small leather goods, gloves and belts from all parts of the world. The members are located throughout the United States, and are comprised mainly of small to medium size privately held companies, employing less than 500 workers. Some of the members are large public companies with thousands of employees. In total FASA members employ more than ten thousand workers in the United States.

At the present time approximately 87% of all handbags and related products sold in the United States are imported, with the largest percentage of products sold in the low to medium price range. FASA members account for 75% of the total of handbag imports.

I am appearing here before you to urge that "Most Favored Nation" (MFN) status for products from China be continued.

In 1989, over $450,000,000 worth of handbags, luggage and related products were imported to the United States from China. This total accounts for more than half of all the handbags and luggage imported. The duties on these products ranged from 5.3% for straw bags to 20% duty for man made fiber or plastic bags.

Most textile handbags and luggage from China are subject to import restrictions because they are subject to quota limitations imposed by the Multi-Fiber Arrangement (MFA).

Should China lose MFN status, the duties on the products which our members import will increase to such an extent as to make most if not all products totally non-competitive. Leather bags will increase from 9% or 10% to 35%. Plastic bags will go from 20% to 45%, man-made fiber bags will go from 20% to 65% and braided bags will go from 8.4% to 90%. Similar large increases will apply to luggage, gloves and belts. I have appended a schedule which compares the duty rates for most of our member's products.

The loss of MFN status for our products from China would cause a tremendous hardship for our industry and our employees. Many workers would, at least temporarily lose their jobs if MFN were lost. Since many of the products that are imported from China are subject to quota, our members will not be able to shift their production to other countries, because most other countries that are capable of producing our products will not have the quota necessary to allow entry into the United States.

Even if we could overcome the quota problem, there is not enough production available in other countries to allow for a shift in orders to other MFN countries. In the last few years production in Taiwan and Korea, our industry's historic producers, has fallen as costs in those countries increased and their economies moved away from low technology industries. Nor could our members add the additional duty costs to their sales price. Duty would average about 50%, an increase of 2.5 to six times that paid currently. Since most of these products are low to moderately priced merchandise, the American consumer would be unable or unwilling to pay the price.

We are not unmindful of the plight of the Chinese people in these difficult times, but we do not believe that the removal of MFN status for Chinese products will advance the cause of freedom and democracy in China. The Chinese people had made great strides, both economic and political during the decade of the eighties, before the events in Tiananman Square.

We believe that credit must be given to the business ties that arose in the past ten years which expanded contacts between the Chinese people and the United States, and also gave rise to a new entrepreneurial class in China which pressed for the democratic and social ideals which were temporarily halted last year.

We believe that continued business contacts with the Chinese people will show the people that the United States has not abandoned them. Loss of MFN will mean loss of hundreds of thousands of jobs in China and will result in economic dislocation and possibly social and political unrest.

It has been our experience that life in China had improved greatly for many people during the decade of the eighties. We must believe that some of that improvement is attributable to the hundreds of thousands of jobs created by our trade and the billions of dollars that have been paid to the Chinese for their labor and their products.

The removal of MFN will hurt the Chinese worker most of all. This does not make sense. These are the people who have been our friends and who have looked to America as a source of inspiration and hope. We do not believe that the loss of economic contact will aid in obtaining democracy for China or improve the life of the Chinese people. To the contrary, if China should lose MFN, most importers would look for new and more stable sources of supply. It would be unlikely that having made a move to other countries, that importers would quickly shift back to China if MFN were to be later restored.

In conclusion we would urge that MFN status for China be maintained. Thank you.

## DUTY RATE COMPARISON TABLE

| Description | C.1<br>Duty.Rate | C.2<br>Duty.Rate |
|---|---|---|
| Luggage | | |
| Leather | 8.0% | 35.0% |
| Outer surface plastic | 20.0% | 45.0% |
| Cotton | 7.2% | 40.0% |
| Ramie, jute | 6.5% | 40.0% |
| Man-made fibers | 20.0% | 65.0% |
| Handbags | | |
| Beaded Handbags: | | |
| Plastic | 8.2% | 60.0% |
| Glass | 4.7% | 40.0% |
| Leather | 5.3% | 35.0% |
| | 10.0% | 35.0% |
| | 9.0% | 35.0% |
| Outer surface cellular plastic | 20.0% | 45.0% |
| Cotton, abaca w/braid | 8.4% | 90.0% |
| Cotton w/o braid | 7.2% | 40.0% |
| Jute, Ramie | 6.5% | 40.0% |
| Man-made fibers w/braid | 8.4% | 90.0% |
| Man-made w/o braid | 20.0% | 65.0% |
| Other - Outer surface non-cellular plastic | 20.0% | 45.0% |
| Of iron or steel | 5.7% | 45.0% |
| Flatgoods | | |
| Leather | 4.7% | 35.0% |
| | 8.0% | 35.0% |
| Outer surface plastic reinforced or laminated | 12.1¢/kg | $1.10/kg |
| | +4.6% | +40.0% |
| Other | 20.0% | 45.0% |
| Cotton | 7.2% | 40.0% |
| Jute and Ramie | 6.5% | 40.0% |
| Man-made fibers | 20.0% | 65.0% |
| Other - Outer surface non-cellular plastic | 20.0% | 45.0% |
| Travel, Sports and Similar Bags | | |
| Leather | 6.8% | 35.0% |
| Outer surface cellular plastic | 20.0% | 45.0% |
| Of Cotton | 7.2% | 40.0% |
| Jute, ramie | 6.5% | 40.0% |
| Man-made fibers | 20.0% | 65.0% |
| Other - Outer surface non-cellular plastic | 20.0% | 45.0% |
| Luggage, Handbags and Flatgoods, of Plaiting Materials: | | |
| Of bamboo | 12.5% | 50.0% |
| Of willow | 5.8% | 50.0% |
| Of rattan or palm leaf | 18.0% | 50.0% |
| Other than rattan/palm | 5.3% | 50.0% |
| Gloves, Mittens and Mitts | | |
| Plastic: | | |
| Sports | 6.0% | 30.0% |
| Other | 14.0% | 25.0% |
| Leather: | | |
| Ski or snowmobile | 3.5% | 45.0% |
| Other | 5.5% | 45.0% |

| Description | C.1<br>Duty.Rate | C.2<br>Duty.Rate |
|---|---|---|
| Gloves, Mittens and Mitts (continued) | | |
| Knitted, crocheted, coated w/plastics or rubber: | | |
| Ski or snowmobile | 5.5% | 25.0% |
| Other: Without fourchettes | 25.0% | 61.0% |
| | 19.8% | 90.0% |
| | 14.0% | 75.0% |
| With fourchettes | 14.0% | 5.0% |
| Of wool or fine animal hair | 33.1¢/kg | $1.10/kg |
| | +7.4% | +50.0% |
| Cotton: | | |
| Ski or Snowmobile | 5.5% | 45.0% |
| Other | 25.0% | 90.0% |
| | 10.0% | 90.0% |
| Synthetic fibers: | | |
| Ski or snowmobile | 5.5% | 45.0% |
| Other | 33.1¢/kg | $1.10/kg |
| | +7.4% | +50.0% |
| | 219.8% | 90.0% |
| Artificial fibers: | | |
| Ski and snowmobile | 5.5% | 45.0% |
| Other | 20.0% | 90.0% |
| Other textile materials | 4.0% | 40.0% |
| Not knitted or crocheted, coated w/plastics or rubber: | | |
| Ski or snowmobile | 5.5% | 25.0% |
| Other: Without fourchettes | 25.0% | 25.0% |
| | 22.0¢/kg | 99.2c/kg |
| | +11.0% | +65.0% |
| | 14.0% | 75.0% |
| With fourchettes | 14.0% | 25.0% |
| Cotton: | | |
| Ski or snowmobile | 5.5% | 45.0% |
| Other gloves w/or w/o fourchette | 25.0% | 25.0% |
| Man-made fibers: | | |
| Ski or snowmobile | 5.5% | 45.0% |
| Other gloves | 22.0¢/kg | 99.2¢/kg |
| | +11.0% | +65.0% |
| Of wool or fine animal hair | 3.7% | 25.0% |
| All other textile materials | 4.0% | 40.0% |
| Belts | | |
| Of leather | 5.3% | 35.0% |
| Other articles of apparel and clothing accessories of plastic | 5.0% | 25.0% |
| Plastic beaded belt | 6.6% | 60.0% |
| Other made up textile clothing accessoriesof cotton, wool, man-made fibers, other | 15.5% | 90.0% |

## STATEMENT OF STEPHEN G. SHANK, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, TONKA CORP.

Chairman GIBBONS. Mr. Shank.

Mr. SHANK. Mr. Chairman and members of the subcommittee, my name is Steve Shank, and I am chairman and chief executive officer of Tonka Corp., the world's third largest toy company. Tonka Corp. is a publicly held corporation, based in Minnetonka, Minn.

On behalf of approximately 1,700 employees of Tonka Corp., I am here to urge you to support most-favored-nation trade status for the People's Republic of China.

Over the years, Tonka has grown into an international corporation, with operations and sales in a number of foreign locations. Our total worldwide employment ranges from approximately 3,200 to 5,000 in a given year. In 1989, 38 percent of our total revenues came from international sales of our products. One of our goals over the next few years is to increase our international sales to 50 percent of our total.

The toy industry is a highly competitive business, with worldwide sales at retail estimated to be approximately $24 billion in 1989. Approximately $13 billion of toy sales were made at retail in 1989 in the U.S. market. Fortunately, this is an industry in which the major U.S. companies are the leading competition in most international markets, as well as in the United States.

Let me begin by stating that all of us at Tonka support the aspirations of the Chinese people for basic human rights, and we condemn the Government's action in Tiananmen Square. We believe that the industrialization that has occurred in China as a result of China's MFN status has been a major positive factor encouraging long-term liberalization in China. We also believe the best way for the United States to influence further liberalization in China is by continuing the current economic relationship, not by pushing China back into economic isolation.

Terminating MFN status would destroy the most important leverage the United States has to promote the development, over time, of democracy and respect for human rights in China. Terminating MFN status would also have serious negative consequences for U.S. consumers of American toys, and for American toy companies, such as ours, who have established significant economic relationships in reliance on the established U.S. foreign policy of granting China MFN status.

Some 48 percent of our company's products are long-established, well known product lines, such as Tonka trucks, classic board games, such as the Monopoly, Clue, and Trivial Pursuit, and other familiar toys such as Play-Doh modeling compound and Spirography design drawing sets.

Because of their longevity in the marketplace, we manufacture these product efficiently and economically in the United States, using automated production equipment. For example, we manufacture Tonka trucks in our plant in El Paso, Tex., we make Play-Doh modeling compound in our plant in Cincinnati, and we produce board games in Salem, Mass.

However, the balance of our product lines have lifecycles of only a few years. A good example is our Ghostbusters line of figures, vehicles and role-playing equipment. It is not economically feasible to mechanize the production of many of these products because they become obsolete so quickly. At the same time, the production of these types of toys must meet our rigorous safety standards. Accordingly, U.S. toy companies need reliable independent manufacturing sources for their products.

American consumers, and indeed all of our consumers throughout the world, demand that toys be priced inexpensively, a fact that requires the toy industry to focus on efficient, low-cost manufacturing. Again, our Ghostbusters toy line is a good example of how sensitive the toy market can be to price fluctuations. Based on the popular movies and the animated children's show, our Ghostbusters line of action figures, vehicles and accessories has been a favorite of children for the last few years. At present, the action figures sell for approximately $7 retail. At that price, they make good birthday or impulse gifts. If they were subject to a 70 percent duty rate, however, the retail price would be somewhere around $10.50. Few consumers would buy these figures at those prices.

To produce these short-lived toys competitively for the United States and world markets, we need access to a large network of established, reliable, low-cost and independent toy factories, run by skilled managers and supported by qualified engineers and quality control experts.

This partial reliance on independent vendors, rather than producing toys exclusively in our own plants, gives us the flexibility to shift emphasis from one toy line to another in response to changing preferences for promotional-type toys. We do own a large maquillador in Tijuana which has proven to be a good source for our products. It took us several years before the plant was running properly, however, since the learning curve for establishing quality, reliable production facilities in a new country is often a lengthy one.

Immediately after the Tiananmen Square massacre, we began to look for other manufacturing locations. We currently contract with independent vendors in Thailand, and have produced limited runs, almost as an experiment, with vendors in Yugoslavia. We are considering Brazil, Malaysia, Indonesia, and the Philippines, and we are also looking at increasing production in Mexico and Thailand. In fact, we are always looking for competitive and reliable vendors.

Establishing these relationships takes time, however. We usually begin by assisting vendors in making a product that is not crucial to our line, almost as an experiment. We then place small orders with these vendors to assess quality and other factors, and then we increase orders with that vendor as warranted.

The reality is that at the present time it is difficult to find adequate alternative sources of manufacturing to China. Thailand has proven to be a good source of production for us, but it is a country which is still in the early stages of development of its toy production capabilities. If we were to move our production out of China into Thailand, Tonka's needs along would exceed the toy production capacity of the entire country, to say nothing of the production capacity our American competitors would have to find to replace their current Chinese production.

In short, moving production will not be an easy task, will not happen overnight, and will not come without significant costs to our company.

Today, we source approximately 40 percent of our product line in China. Many of our U.S. employees are employed to design, engineer, market and distribute toys produced in China.

Ten years ago, American toy companies arranged for the production of most of these kinds of toys in Hong Kong, Taiwan, and Korea. In more recent years, however, following the granting of most-favored-nation trading status to China, the toy manufacturing base has shifted to the South China area, under the management of experienced Hong Kong-based manufacturing companies.

Today, we still contract with Hong Kong vendors, but they, in turn, arrange for the bulk of the labor-intensive manufacturing in factories in China. This manufacturing link with China has raised China's standard of living in the South China area, and has fostered economic and political attitudes that are a progressive force.

If Congress were to revoke MFN status for China, the increased cost of doing business would bring a virtual end to United States-Chinese economic relations. We believe, as do many observers of China, that the Chinese Government would react by adopting policies that would increase China's economic isolation. This would be counterproductive to our policy interests in China.

Withdrawal of MFN status would also have seriously adverse economic consequences here at home, both to American consumers, and to American employees of U.S. toy companies. Duties on our toys would rise dramatically, from the present 6 to 12 percent, to 70 percent of the value of a toy. In a highly competitive, relatively low-margin business like the toy industry, we could not absorb this increase. Price increases would have to be passed on to the consumer, increasing the price of many popular toys by approximately 50 percent.

Moreover, such a step would seriously disrupt the supply of toys to American children for the holiday season. Christmas of 1990, for which most of the toy production is yet to be done, would be totally disrupted. Availability of toys for Christmas 1991 would be serious affected, since there are not enough quality toy production facilities outside of China to replace, on short notice, the production capacity American toy companies now use in China.

An abrupt change in U.S. policy would cause significant dislocations within the U.S. toy industry, and would have a significant negative impact on U.S. jobs, many of which are tied to Chinese production. I therefore urge your support for continuing the present economic relationship between the United States and the People's Republic of China—to do otherwise would undermine progress that has been made with China. It would also cause severe economic disruptions, impact the availability of toys, raise the price of toys and jeopardize countless American jobs.

If, for foreign policy reasons, Congress should deem it necessary to revoke China's MFN status, please at least give the toy industry time—several years, in fact—before this decision is implemented, so as to minimize the consequences to companies such as ours.

Thank you.

Chairman GIBBONS. Thank you.

Mr. Cornish.

## STATEMENT OF TOM CORNISH, PRESIDENT, TAKSON DOWN MANUFACTURING, INC., SEATTLE, WASH.

Mr. CORNISH. My name is Tom Cornish. I am president of Takson Down Manufacturing Co. in Seattle. We are a joint venture company in Hong Kong.

Since 1978, Mr. Wong has had extensive joint venture capital investment in mainland China. When I joined the company 3 years ago I had had a relationship with him several years prior and I traveled approximately within the last 10 years in China.

I think one of the—one of the experiences that I have had—we have heard a lot of arguments today that are in favor of most-favored-nation status, and what is going to happen with Hong Kong, et cetera.

I think that one of the things that we can address also, here, and with my firsthand knowledge, is what has happened good in China from most-favored-nation status when it was originally granted in 1980 to present. And therefore when you create that picture of what actually has happened, that I have experienced, that has been good, when you talk that way you can create a negative in terms of what the punitive effect will be.

As you know, in 1980 when the United States first granted most-favored-nation status to China, that is when all of a sudden it became a lot easier to get visas to travel in China. Americans started going there to China and Chinese students started flowing out. In that period of time from 1980 to 1985, there certainly was a lot of Central Government control of all the activity, and certainly in the business we were involved in.

By 1985 the textile industry itself was sort of a grand experiment in the birth of capitalism. In a certain segment of Chat the Animal Byproduct Corp. and the China Textile Corp., which were the two active corporations doing corporate business in the textile business in China, then decided to have this experiment in several areas, such as Guangzhou City, Shanghai, Beijing, Guangdong, Injin, and Sinchin, and some other special economy zones.

As this experiment took place in the textile business where each one came independent, you would have a byproduct competing against Shanghai byproducts for business. All of a sudden there became this competitive market in China in terms of going out and trying to get the business themselves.

There were certainly a lot of mistakes, and I will make no denial that under the table payments, et certa, were the norm in the beginning of the system. But by 1988 what the Government learned and what certainly in southern China was learned, that the ones that were actually from a purely capitalistic and profit center situation, the most profitable were the ones that also coincidentally had the least corruption, et cetera. They learned during that period of 5 years you can have a capitalist center inside a Communist system.

And number two, the ones that are the cleanest in the way they do business show the most profit.

As it became more and more decentralized they get a little aggressive, and there was certainly a trading frenzy for a while. By 1988 there were textile and export licenses being given indiscriminately throughout China, with no Central Government control, and by 1989 there was a tremendous embargo that hit the textile industry.

China itself lost millions and millions of dollars in goods they could not ship, as did the American importers that couldn't receive those goods. So the Government then got involved, and the reason I am bringing this up, there was an earlier reference made to how the centralization of economic and political situation in China was negative. I can give you a positive example.

Now, under automatic visa verification system, which is operated in Shanghai by a man who is in the embassy here, a gentleman by the name of Mr. Du, we have now recentralized the issuance of textile visas from exports from China to the United States, thereby giving you this final balance of on the one hand you have got the Government recentralizing and recontrolling a certain aspect of the business, but still allowing the provinces to operate independently.

You can compare that, I guess, that is a pretty subtle economic idea. It is federal reserve directing the economy by making certain Central Government or central policy adjustments. So I think there was a real success story there, too.

And you know, also, we have heard what MFN would do to column 1 and column 2 duty rates. In the textile industry it would raise my duty approximately 68 percent. When I operate on a 32 percent gross margin, I don't think it takes a very sharp pencil to figure out what would happen to my business.

So I think in summarizing this whole situation of all the points that were made, I think that when you talk about conditional approval, I don't mean to be base here, but you can't be half pregnant. You either have MFN or you don't have MFN. With conditional approval, it takes away long term planning. You have to assume in 1 year you have a terminal situation with mainland China.

I think the most important part from my side, and one of the interesting problems I had with Security Pacific Bank in Washington, they weren't really interested in talking to me until President Bush took the waiver up the hill. In the textile business we book all our orders in January, February, and March. Congress can make an arbitrary decision, be it good or bad, in midyear for goods to be shipped in September. Now we have a situation where I have made all my financial commitments and in June things change. China collects the money, ships the goods, and I have to fake a negative 35 percent profit in order to import the goods in the United States.

I think where conditions are concerned the only condition I support, if you decide from year to year to change or not accept the waiver, or the President decides not to take the waiver up, I say that we should have some sort of umbrella in there to figure out how to protect the contracts that are placed in the Orient, and that is all I have to way.

I would like to thank you very much for the chance to testify.

Chairman GIBBONS. Thank you.

[The statement of Tom Cornish follows:]

**Testimony of Tom Cornish**
**President, Takson Down Manufacturing, Inc.**
**Thursday, June 21, 1990**
**Before the House Ways and Means Trade Subcommittee**

Re: Most Favored Nation Status for China

I am not a member of a large corporation or lobby group, nor am I a wealthy businessman with a great fortune at stake. Rather, I am a concerned citizen and businessman who has spent a great deal of time with the people of China. Please allow me on that basis to make the following points in support of MFN status for China.

1. Policy liberalization since most favored nation status was granted to the Peoples Republic of China in 1980.

2. Changes that the textile industry has helped initiate since 1985.

3. The threat to Hong Kong.

4. The timing of Jackson/Vanik in relation to security of contracts.

5. Free trade as the diplomatic birth of an open emigration policy.

Since 1980, as you know, travel of American citizens inside the Peoples Republic of China has become easier and easier with each passing year. Likewise, travel in the opposite direction of Chinese businessmen and students to the United States has also become much easier. The following statements, although referring mostly to the flow of Americans to China, apply to the Chinese flow to the U.S. as well.

Prior to 1979 to 1980 it was very difficult and in fact in most instances an invitation from the Beijing government was required to travel in the Peoples Republic of China. After the U.S. put its first foot forward in granting MFN to China, visas were much easier to obtain. On my first trip during that period of time into the interior of China, most Chinese people had very seldom, if ever, seen caucasians in their cities and towns. We were quite unique, to say the least. As travel increased both in tourism and business over the next ten years, what was once a special occasion has now become normal throughout the city streets in most of China. Just from the tourist side alone, the communication between Americans and Chinese people has created a better understanding and a tolerance on both sides that had not existed before. There is no question in my mind that MFN status was the single cause that effected these changes. As you know, the free exchange of information is the single most important medium for the exchange of ideas that promotes the positive aspects of western democracy and lifestyle. In 1985, the changes became much more significant.

Approximately mid-year 1985, the Beijing government through the past five years of open exposure to the success of western capitalism decided to experiment in certain areas of the state corporation method of doing business. Prior to 1985, all contracts and quota negotiations had to be held with the Beijing central government and in the specific case of the textile industry with the Animal Byproducts Corporation and the China Textile Corporation. These negotiations were often difficult, pointless, and strongly tied to under-the-table monetary agreements. Although being able to hold these negotiations alone was an improvement over 1980, it still became very cumbersome to do business in this fashion. Through the constant communication with the central government, and the vocal frustrations of the business people involved, China slowly started to see the light, so to speak. And so the experiment began.

Beijing decided at this juncture to allow certain provinces mostly in the south such as Guandong and certain cities such as Shanghai to operate as autonomous political and commercial entities. The idea behind this thinking was to decide and monitor whether or not the provinces and the cities that were successfully doing business were in fact being held back by the balance that were not showing profit. As these individual profit centers mostly in the garment business started to grow, the government had a first-hand overview of how these profit centers can function.

I am not here to tell you that these profit centers did not carry over some of the corruption involved with the central government. They did see, by example, that the less corrupt and more purely capitalistic these profit centers were, the more profitable they were also. By 1988, there were more than one dozen separate areas within China that were successfully doing business and showing some profit.

Furthermore, the management people involved were becoming more knowledgeable in the operation of a free market system. As in all free market systems, overzealousness can be your own worst enemy. In approximately 1988 this was the case. Each individual profit center became so competitive with the others that the very central government control that had been the nemesis of the system in the beginning now permitted textile licenses for export to be issued at random with no central control.

In 1989, there was a very serious embargo under a Group II quota category that had very serious economic ramifications in China in relation to millions of dollars of goods that could not be shipped. Since that time, China has initiated and controlled through Shanghai a system called AVVS, or Automatic Visa Verification System. In learning that textile quotas had to be tightly controlled, they achieved a balance of central government control and individual profit motives at the same time. As you know, in a free market economy, this is an extremely sophisticated concept. Example, the Federal Reserve Board controlling interest rates to direct the focus of the economy in a particular direction. As you can see as stated above, the Chinese were learning a very complex lesson, and they learned it well. My question to you is how could they possibly have learned these concepts without MFN. The answer is obvious, they could not.

You have probably heard an abundance of testimony regarding the effect of the most favored nation status on Hong Kong. Takson Down Manufacturing is a joint venture company with a Hong Kong trading company who thus has invested a great deal of money in joint venture factories in China. We are one of several hundred of those companies based in Hong Kong. Parallel to that is the fact that we transship all our goods from China through Hong Kong. To lose Most Favored Nation Status for China would not just affect the $18 billion in trade, of which more than $15 billion is transshipped through Hong Kong, but it would devastate the capital investments that the Hong Kong business community has made.

I think that my personal experience and involvement as a joint venture partner with several corporations in China gives me a different perspective than just an importer who is contracting finished goods in the Peoples Republic of China. Because of this partnership that the Takson Group has in the PRC, we have the access to a lot of information and intimate feelings of the people we are doing business with that we might otherwise not have. These communist bureaucrats turned capitalist manager are a group of people that are very earnestly changing their thinking by the influence and example of western business. We're "turning them on" to capitalism so to speak and once these people have "caught the bug" it is an amazing change that you see in just their everyday attitude. This is passed on to their families and their friends and again to take away MFN would severely damage the delicate development stage that these attitudes and people are experiencing.

I do not have any expertise involving the relationship of the use of trade as a diplomatic weapon. And frankly, even though I don't agree that it should be used in that fashion, there are some very strong arguments to the contrary. However, the Jackson/Vanik act has in my opinion a serious omission in that there is no clause relating to security of contracts. By this I mean that if an outerwear importer places a contract in China in February, issues letters of credit in March, China ships in May or June, and the waiver is refused, the duty rates increase prior to the goods landing in the United States. Now you've created a scenario where China has produced and collected revenues and the U.S. Importer is liable in the interim for the trade act in the form of higher duty rates. As an American citizen, I totally support the policy of my government regardless of whether or not I personally agree. However, my appeal is made on the grounds of the security of my contracts overseas. If the government decides to make a decision mixing trade and diplomacy they should at the same time offer some type of security for me and my family and my business so that my contracts placed in that calendar year can be shipped without punitive damage.

Let me sum up by stating that in my own small way and in the way of hundreds of other people like me, we have taken by example the success and reward of western democracy and capitalism into China. Although I do not condone the acts at Tiananmen Square, I do understand our government's frustration with the infamous events of that day and our need as a compassionate nation to make a statement of policy that demonstrates our strong disapproval. Yet, our own history has shown that young ideology is often met with lack of understanding and is sometimes dealt with by force and violence. Certainly most Asians and all men of thought know this day was a terrible mistake. But a mistake cannot be "taken back," and it is only through future exposure that this natural evolutionary process toward democracy can continue.

Thank you very much for your time.

Sincerely,

TAKSON DOWN MFG., INC.

Tom Cornish,
President

MP1/t3

Chairman GIBBONS. Mr. Abnett.

## STATEMENT OF WILLIAM B. ABNETT, EXECUTIVE DIRECTOR, WASHINGTON STATE CHINA RELATIONS COUNCIL

Mr. ABNETT. Mr. Chairman, Mr. Schulze, my name is William Abnett. I am the executive director of the Washington State China Relations Council. My organization is a private nonprofit corporation headquartered in Seattle and dedicated to promoting commercial and cultural relations between the State of Washington and the People's Republic of China. Our council has more than 100 members, including such corporations as Boeing, Weyerhaeuser, ITT Rayonier, Paccar, and Northwest Airlines, and most of our State's colleges and universities. We are the only such State-centered association in the Nation.

As a representative of the American business community and a former U.S. trade negotiator during the Reagan administration, I strongly urge the U.S. Congress to approve President Bush's waiver of Jackson-Vanik and vote to extend China's MFN trade status for another year. MFN treatment is the cornerstone of all free and fair trade policy—here in the United States as well as in the General Agreement on Tariffs and Trade, GATT. America grants MFN treatment to virtually all of our trading partners, including South Africa, Ethiopia, Syria, and Iraq. In our country, MFN is not the exception, it is the rule. Accordingly, removing MFN from China would not be removing a privilege; rather, it would be imposing a sanction—and a unilateral and therefore ineffective one at that. No other country in the developed world is contemplating such an action. In fact, many countries are licking their chops with glee, hoping that Congress will vote to remove China's MFN status, because that action would cause American business—their principal competition—to retire from the China market.

Removing MFN from China would have disastrous effects on United States-China trade. For the past 10 years, Chinese-made products entering this country have been assessed tariff rates averaging about 6 percent ad valorem. If Congress were to remove China's MFN treatment, Chinese products would be subjected to discriminatory tariff rates that would in many cases exceed 100 percent. These vicious tariff hikes would price many Chinese goods right out of the American market. According to private estimates, China would stand to lose at least $6 billion of its exports to the United States—about one-half of last year's total. Moreover, the Chinese would undoubtedly retaliate dollar-for-dollar against American exports to China. As our exports amounted to $5.8 billion in 1989, Chinese retaliation would effectively wipe out U.S. exports to China. In short, the removal of MFN treatment for China would bring an end to United States-China trade as we have gotten to know it over the last 10 years. This would indeed be a great blow to the forces of democracy in China. Growing trade and investment ties with China over the past decade have helped immeasurable to foster greater understanding among the Chinese people of the traditionally American values of political pluralism, the free market, liberty, and humanitarianism. Only when ordinary Chinese people understand how democracy and the free market work will those ideas become reality in China.

In addition to having disastrous economic implications, removal of China's MFN treatment would also have dire political consequences:

First, bilateral political relations would deteriorate, perhaps irreparably. Inside China, hard liners in the leadership would be strengthened—not weakened—and the loss of MFN would play right into the hard liners' hands, fueling the fires of isolationism and Xenophobia, and distrust of the United States.

Second, it would victimize the victims—the ordinary people of China, who are the very individuals that the American Government is striving to protect. Moreover, it is a great irony that we would do the greatest injury to the most reform-oriented and entrepreneurial people in China. More than 50 percent of the products that we imported from China last year were produced in market-oriented collective factories in south China, not in Stalinist state-owned enterprises. If China's MFN treatment is revoked, the entrepreneurial collective factories—not the heavily subsidized state-owned enterprises—will be forced to shut down.

Finally, removing MFN from China would do grievous harm to the people of Hong Kong, innocent bystanders and guardians of the world's last great bastion of free market economics. In 1989, fully 70 percent of American imports from China were transshipped through Hong Kong for value-added processing such as repackaging and for efficient ocean shipping. Removal of MFN would have dire consequences fro this sector of the Hong Kong economy. Furthermore, many Hong Kong manufacturers of goods destined for the American market have moved their operations in recent years across the border to south China. Without MFN treatment, most of this business would go bankrupt. With the 1997 question looming so large in the minds of Hong Kong people, shouldn't the U.S. Congress be supporting rather than undermining the Hong Kong economy?

The Washington State China Relations Council hopes that the U.S. Congress will vote to extend MFN trade status for the People's Republic of China for another year.

Mr. Chairman, thank you for the opportunity to express my council's opinion.

Chairman GIBBONS. Thank you, Mr. Abnett.

[The statement of William Abnett follows:]

# TESTIMONY OF WILLIAM B. ABNETT
## EXECUTIVE DIRECTOR
## WASHINGTON STATE CHINA RELATIONS COUNCIL

BEFORE THE SUBCOMMITTEE ON TRADE
HOUSE COMMITTEE ON WAYS AND MEANS
June 21, 1990

Mr. Chairman:

It is my pleasure to testify today before the Subcommittee on Trade on the topic of Most-Favored-Nation (MFN) trade status for the People's Republic of China (PRC).

My organization, the Washington State China Relations Council, is a private nonprofit corporation with one basic mission: to promote and enhance commercial and cultural relations between the state of Washington and the PRC. Our Council is the *only* such state-centered association in the union. We have more than 100 members, representing businesses of all shapes and sizes--ranging from the mighty Boeing Company to the tiny "Mom and Pop" import/export firm--as well as institutions of higher learning. The Council was founded in 1979, immediately following the establishment of diplomatic relations between the United States and China. In the more than ten years since our founding, Washington State's trade and cultural ties with the PRC have flourished. Last year, our total two-way trade with China amounted to $2.6 billion--about one-seventh of *all* U.S.-China trade and more than any other state. The Council's member colleges and universities have conducted academic exchanges with scores of Chinese universities. And one of our corporate members, Northwest Airlines, has generously provided tens of thousands of dollars worth of travel grants that have supported approximately 75 scholars from Washington State in their pursuit of academic research in China.

The Washington State China Relations Council strongly urges the United States Congress to approve President Bush's waiver of Jackson-Vanik and vote to extend MFN trade status for China. MFN treatment is the cornerstone of all free and fair trade policy--in the United States as well as in the General Agreement on Tariffs and Trade (GATT). America grants MFN treatment to virtually all of our trading partners, including South Africa, Ethiopia, Syria, and Iraq. In our country, MFN is *rule*, not the exception. MFN is most definitely *not* a privilege; it is the standard tariff treatment that we apply to the overwhelming majority of our trading partners. Revoking MFN status from China would not be the withdrawal of a privilege, it would be the imposition of an economic sanction--and a unilateral sanction at that. No other country in the developed world is contemplating such an action. In fact, many countries undoubtedly are licking their chops with glee, hoping that United States business--their principal competition--will be forced to retire from the China market.

The Government of the United States has extended MFN treatment to China ever since both countries established diplomatic relations more than ten years ago. Every year since then, both Congress and the President have ruled that China is in compliance with U.S. trade law regarding MFN treatment to nonmarket economies (Title IV of the Trade Act of 1974, Public Law 93-618), and have continued to extend MFN treatment to China. During the decade that America has been granting MFN status to China, bilateral trade has increased dramatically, from a mere $1.1 billion prior to "normalization," to a total of $18 billion last year. Moreover, strong trade ties have undeniably led to progress in other important areas of U.S.-China relations. For example, the United States has become the world's second-largest foreign investor in China, with some $4 billion of equity investment in place there. Our presence in China is significant; there are now approximately 1000 American-owned enterprises in the PRC. And as we have increased our investment in China, the Chinese have begun to invest in our country, opening scores of Chinese-owned companies in the United States during the past ten years. At present, there are at least seven PRC companies in the Seattle area, alone. Growing trade and investment ties with China over the past decade have also helped to foster greater understanding among the Chinese people of the traditionally American values of political pluralism, the free market, liberty, and humanitarianism. Only when ordinary Chinese people understand how democracy and the free market work will those ideas become reality in China.

Accordingly, the Washington State China Relations Council believes that maintaining commercial relations between the United States and China is absolutely necessary. Continued U.S.-China trade relations depend on continued renewal of MFN treatment. Removal of China's MFN status would decimate U.S.-China trade. Chinese-made products currently are subject to U.S. tariffs that average about 6 percent. If Congress were to revoke MFN treatment for China, then that country's products would be subject to discriminatory tariff rates rising in some cases to over 100 percent. These vicious tariff hikes would price many Chinese goods right out of the American market. According to private estimates, China would stand to lose at least $6 billion of its exports to the United States--about one-half of last year's total. Moreover, the Chinese would undoubtedly retaliate dollar-for-dollar against American exports to China. As our exports amounted to $5.8 billion in 1989, Chinese retaliation would virtually wipe out U.S. exports. In short, the removal of MFN treatment for China would bring an end to U.S.-China trade as we've gotten to know it over the past ten years.

In addition to having disastrous economic implications, removal of China's MFN treatment would also have dire political consequences. Bilateral political relations would deteriorate, perhaps irreparably. Inside China, hardliners would be strengthened--not weakened--by MFN removal. The hardliners would use the removal of MFN to "prove" their position that contact with the capitalist United States is not in China's interest. The fires of xenophobia and isolationism in China would be fueled, and the U.S. Government would stand to lose everything that had taken more than a decade of hard work to develop. It is difficult enough for a foreign country to influence China during a period of warm political relations, but--as we found out during the Korean War--it is impossible to do so when we are hostile to each other.

Removing MFN from China would also be a clear case of victimizing the victims--the ordinary people of China, who have suffered enough already, and are the very individuals that the American Government is striving to protect. There is no evidence that revoking China's MFN treatment would bring the current regime to its knees, but there is absolutely no doubt that doing so would harm the living standards of the Chinese people. Moreover, it is a great irony that we would do the greatest injury to the most reform-oriented and entrepreneurial people in China. More than fifty percent of the products that we imported from China last year were produced in market-oriented collective factories in South China, not in Stalinist state-owned enterprises. If China's MFN treatment is revoked, the entrepreneurial collective factories--not the heavily subsidized state-owned enterprises--will be forced to shut down.

In addition to harming the pro-market reformers of South China, removing MFN from China also do grievous injury to Hong Kong, an innocent bystander and the world's last great bastion of free market economics. In 1989, fully 70 percent of American imports from China were transshipped through Hong Kong for value-added processing such as re-packaging. Removal of MFN would have dire consequences for this sector of the Hong Kong economy. Furthermore, many Hong Kong manufacturers of goods destined for the American market have moved their operations in recent years across the border to South China. Without MFN treatment, most of this business would go bankrupt. Not only would this hurt the Hong Kong economy, but it would also cause most of the approximately 2.5 million Chinese workers in South China's Guangdong Province who had been hired by these Hong Kong companies to lose their jobs. With the "1997 Question" looming so large in the minds of the Hong Kong people, shouldn't the U.S. Congress be supporting rather than undermining the Hong Kong economy?

The Washington State China Relations Council hopes that the U.S. Congress will vote to extend MFN trade status for the PRC for another year. Mr. Chairman, thank you for the opportunity to express my Council's opinion.

Chairman Gibbons. I remember your service here. Glad to see you back. I think all of you understand we have a difficult political problem here within the Congress.

From the discussions I heard today and my conversations, I think most Members believe cutting off China's MFN status would be a mistake.

I think perhaps we are beyond that hurdle, unless there is further violence in China. I am not sure, though. You are never sure on these things until you test them out on the floor and see how they are going to fly.

But there are some people who say, well, I have got to do something. My conscious requires me to do it. I have got to express myself in some positive way, that I don't tolerate the kind of behavior my Government has taken, not only in the place we call Tiananmen Square, but all the repression around it.

The problem is how do we get this message across without harming the commerce that has been developed so far and the dialog that has been developed so far between our people, and between other freedom loving people and China? Is there any way to get this across, other than taking some drastic step like the 1-year plant closing notice or something of that sort?

If we were to impose heavy restrictions or heavy conditions that the President has to meet in recommending a waiver to the Congress so we can extend MFN status for another year, what can we do? Have you got any suggestions from your own experiences?

Mr. Cornish. Congressman Gibbons, if I could just answer that by—and I understand—everybody has got the same concern, what can we do.

In the relationships that I have with the corporations that we are doing business with in China, and we are financially involved, and I think they are a little sometimes more honest and graphic with us than they are with someone going in and purchasing a finished goods contract. These guys really think they dodged a bullet when the President took the waiver up. Believe me, they started coming to Vancouver, delegations started coming to Seattle. I am sure Mr. Abnett has gone through this.

I know Bryan Boyle, who is seriously involved in timber trading, these guys were concerned and very scared. This is something they have taken for granted for 10 years.

It has happened as routine, and now they know there is an MFN that is actually, can and will be rejected. So I think that the country has done its job. I think the message there, and that is why I said earlier either take it away or don't take it away. I don't think you have to make conditions. I think in my experience and my relationships they understand fully.

Chairman Gibbons. I assume you are correct there. But we don't see enough positive progress so that we can sell that in the Congress. We have seen the release of only some of these people. You have heard the stories. I have heard the stories here for days about continuing harassment of students over here.

Mr. Solarz is a very reliable Member of Congress. He apparently can document this harassment of the students over here or of their families back there. Somehow, we have got to get some affirmative action out of the Government of China to show that they are taking some remedial steps. We have a researcher and his wife locked up in the American Embassy.

How long is that kind of ridiculous behavior going to go on? You have somebody that is locked up, can't get out. He can't go in, can't go out. Those are the kinds of problems that we have got to see some resolution of. That is one problem. We have got to see something.

The Chinese at least obey their own law. We have got to see a much kinder, gentler government over there to their own people. It doesn't do me any good to preach. I know that they are not hearing me. But, I want MFN for China. I think Jackson-Vanik is a mistake. I am way down. I have 10 percent of the votes of the Congress. I need 51 percent really to do business.

I have got to have some help from that Government or I can't make any progress. I don't want to isolate America from that area, nor do I want China to turn inwardly again, but I just need some help.

Mr. SHANK. Could I make a couple of comment in response to the question you asked? The first point is, I think the real problem with them on the other side is breaking the economic relationship with China runs the risk of disrupting maybe the best force for a long-term resolution that can exist in China.

As we talk to people we deal with in South China, I think the real problem is you have got an old government locked into an idea, and maybe real change in China isn't going to come until this generation passes away.

The question is, is there going to be a progressive force in China that maybe can influence this progressive movement down the road? We would hope that perhaps the Government could try to find important pressure points to put on China to find something less drastic, less Draconian than the MFN stick.

Things like our refusal to support international leading institutions which may have supported projects in the past to try and exercise very visible influence with China. Again, I am not a foreign policy expert. I would believe there would have to be many points of contact with China. I think right now, the problem with this conditionality in China itself may reflect the end result, because every business has got to say this thing is over, and we have to go away.

On the other hand, this year, in terms of the strong notice that Congress is making, there will be another point to look at this next year. There may come a point in time which says the thing is that the American people are going to choose to pay a price.

From the point of view of business, this would be something more manageable if at that point in time a terminal end game was laid out which says, we are going to transition out of the economic relationship with China. We think business, you know, is going to have this much notice to adjust to that.

Maybe if nothing happens in a positive sense, that has to be the way to go.

Mr. SIMON. Mr. Chairman, if I may also address one thought? In 1979, when MFN was first granted, and we first embarked on these trade contacts that have developed over the past 10 years, as was mentioned by my colleague here at the panel, the contacts with China were strained.

If Chinese people talked to an American, it was looked at as perhaps subversive in the eyes of the Government. In 10 years, we have come a very long way. We have come to a point where all of us sat and watched on television in May of 1989 with amazement that, in effect, the Chinese students and the Chinese people had occupied the center of Beijing and held Beijing and the world hostage for some period of time.

I think in 1980 or 1981, had one student walked into Tiananmen Square without authorization, he would have been locked up or shot, and that would have been the end of it. It gave the leadership pause. They have taken a step back.

But, it was, we believe the contacts, the trade contacts, the business contacts, the social and economic contacts that have been developed over 10 years allowed that first step. The Chinese, as I understand it, look at things in terms of decades, in terms of generations, in terms of centuries, they have been around for a lot longer than we have.

If you ask them, they will probably figure they will be around a lot longer after we are gone. I don't believe that, but many Chinese, I think, believe that. Maybe we have to be a little patient. We can't expect them to move a country of 1.1 billion on a dime, so to speak, to change their policies in 1 year, 2 years, or even in 10 years.

If we cut off the contact, the trade, the open-door policy, the people will suffer. The students being taught in American universities today, the Chinese students, they are the ones who are going to go back to China. Sometime they are going to be in power.

Yesterday, our association had its annual meeting. We discussed many problems facing our industry, including the problem of China and the MFN. At the end of the meeting, a young woman came up to me, her name is Helen Chen. She has been in this country 4 years. She works as an import manager for one of our companies that has business in China.

She said to me with tears in her eyes, "Please, when you go there, make sure you let the Congress know the people in China are the only ones who are going to be hurt."

She worked for the Government in Beijing for 4 years before she came in this country. She said the Government leaders don't care. They will be there this year, next year, next century. They have been there for 2,000 years. It is the people who are going to be hurt.

Thank you.

Chairman GIBBONS. I don't disagree with that. The problem is, I have votes coming up this summer. I don't think I have enough votes. I have got to have some kind of demonstration so I can go to the floor and say, I guess things did get bad in Tiananmen Square and there was repression there. However, we have these positive facts to report.

We know about the demonstrators that have already been released. That is fine. But, we have got to have some other tangible things. That has softened the blow somewhat, politically speaking, here in the Congress.

But the Congress responds mightily, as we have seen. You can't bring a request for MFN for Russia here as long as Lithuania, Estonia, and Latvia are out there. The leaders in Russia seem to understand that. They apparently are dealing more constructively with Lithuania, Estonia and Latvia. But it hasn't been demonstrated enough here in the news media and in the political arena that progress is really being made in China.

I think it would be helpful for China to do such things as releasing those for which no real charges can be made under Chinese law and providing speedy trials for those who are charged with some serious crimes—I don't mean political crimes. I am talking about physical, violent crimes—releasing the family that is in the—imprisoned really in our Embassy and other things.

I realize they can't let any more emigrants out, because we won't accept any more permanent emigrants. But if the students over here got the message from their families that they would be able to come home, and we are convinced that they would be able to come home, and we are convinced that they wouldn't be harassed and their families won't be harassed when they do come home, I think things would improve.

I know it is wishful thinking, but I have only got July, maybe part of August to handle this problem. If I went to the House floor today with a Jackson-Vanik resolution of disapproval, I don't know whether I could get it rejected by the Congress. Everybody says, well, the President will veto it.

Suppose he vetoes it. I think those of you who have watched some of these fights on the floor realize that we have a terrible time sustaining the President's veto. We have just got to have some positive results so that we can go to the floor and say, "Look, things are changing. They are changing for the better in China. Let's not put horrible conditions on the President that the President can't possibly certify to."

If we lay down conditions in our future legislation that the President has to certify, that is a 1-year plant closing notice, as one person said yesterday. We had one person that wanted a 6-month closing notice today. I don't know where the votes are. I am afraid from what I hear that I just don't have the votes, enough to function in a constructive manner.

So, any way you can get that message to the leaders of China would be helpful. Do any of you have any further comments?

Mr. **Abnett**. Last week, I had the opportunity to be back in the east coast and gave a little—participated in a panel on the other end of town, up at the State Department. I visited a lot of old friends and colleagues plus new friends.

Then I went over to the Chinese Embassy to have lunch with the new Ambassador. I had known him when he was a Vice Minister of Foreign Affairs. I just wanted to talk with him and pass on a few things and ask a few questions, including what measures will his country do or take before Jackson-Vanik, before the vote on MFN?

What measures and steps can be taken to improve the relationship and to make it much warmer, kinder between our two countries?

He said that probably the only things that the Government will do between now and July or August would be to release the names of all of the individuals who are detained and released in the three crunches, roughly 900 people, and also release the names of people killed in Tiananmen Square and the Beijing area on June 4, 1989, and then release the names of the 400 detainees whose cases have not come up yet. They are under investigation.

From what I understand, a lot of the human rights people would take that as a good gesture, because they would get the names and assurances these people were released. Now, there are only a few names floating around. When I asked him about Fang Lizhi and other gestures, he said that is a sovereignty problem.

If a foreign country told us to release a person we considered indicted, it would be almost similar to some foreign country to release Manuel Noriega before he goes to trial. I think the bottom line is, Mr. Chairman, that the Chinese leadership, because it is full of old men who have nothing, they are concerned with nothing more than power, survival for the next couple of years until they pass from the scene, are probably not going to make interesting concessions.

I think, try as we may, the whole world wants change in China, the Chinese want change, I don't think much will come of this leadership until it passes from the scene.

The real question is, would we be hurting the leadership at all by taking away MFN? Would we be hastening them from the scene? I don't think we would. I think taking away MFN far exceeds any influence we have. We would be the only country in the world doing it.

Chairman GIBBONS. I agree with you 100 percent. That doesn't stop Congress from voting the other way. That is the problem.

Mr. ABNETT. The Chinese refer to us, business people, as "peaceful evolutionists." We are seditious. We are the "worms and flies" that get in through the open door that should have a screen, because we talk to Chinese people. We set up thousands of enterprises. We also trade ideas.

They come to our country. They share, they look at this great city and other cities, and our democratic process, and they get these ideas of, for instance, the Goddess of Democracy in Tiananmen Square.

We have performed, the Americans and Europeans and other foreigners, have performed a great service, but a gradual service. It is a gradual change. No one can deny that in 10 years, change has been made.

The question then becomes, would the Congress accept that notion of gradual change if trade were to continue, or would it demand that the U.S. Government do something to send a message that we want more than gradual change? We want rapid change or some symbolic gesture.

Chairman GIBBONS. I don't want to depreciate the human rights movement, because I think it is genuine. I have watched it grow in the Congress for years, and it is a full-blown idea. Its time is here. It has got lots of political influence.

There are not many Members of Congress who will stand up and argue with the human rights people. As I say, it is not customary, as you know, Mr. Abnett, for Americans to think in the long range.

I admire people who can and do think in the long range. I kid myself every now and then, and think I do think in the long range.

But, you know, we either have to vote yes or no around this place. There is no long-range yes and long-range no, and short-range yes. It is just yes or no. For better or worse, we are going to vote on this thing this summer.

I don't know, I have tried to count votes, I have tried to figure out where we are going, I have tried to figure out strategies. I don't know how it is going to come out. A lot of how it comes out depends upon how the Chinese Government acts and on our knowing how they act.

The conditions have changed. When we went to China way back in the seventies, there was really very little understanding in this country about China. I don't know how much understanding there is here now, but there is a greater perception that China moved ahead toward freedom rapidly in the seventies and the early part of the eighties, then suddenly retrenched last year.

That perception has got to be dispelled or this Congress is going to cut off most-favored-nation treatment for China, maybe not this year, maybe not next year, but sooner or later. I am afraid it can do it this year. I don't know anybody that has been able to count a safe number of votes even to sustain a veto. That is the problem that we all have.

I want to do business with China, because I think it is in the best interest of the United States. I think it is also in the best interest of China. I have been overrun before. I am a terrible minority in this Congress when it comes to these kinds of matters.

I guess that is about all I can say right now. I thank you all for coming. I appreciate your help. We will keep these hearings open for any late arriving developments and see what we can do.

Thank you very much.

[Whereupon, at 3:10 p.m., the hearings were adjourned.]

[Submissions for the record follow:]

# TESTIMONY OF
# JOSEPH A. MASSEY
# ASSISTANT U.S. TRADE REPRESENTATIVE
# FOR JAPAN AND CHINA
# BEFORE THE
# WAYS AND MEANS COMMITTEE
# SUBCOMMITTEE ON TRADE
# UNITED STATES HOUSE OF REPRESENTATIVES
# JUNE 21, 1990

The Office of the U.S. Trade Representative is pleased to provide testimony on the continuation of Most Favored Nation (MFN) trading status in our relationship with the People's Republic of China. I recognize that MFN is an issue which is being considered in the broader context of our overall policy toward China. The State Department is prepared to discuss the foreign policy implications of continuing China's MFN status. As an official of the Office of the United States Trade Representative, I will focus my remarks on the importance of MFN for U.S. trade interests. In a world in which international competitiveness is rapidly becoming a cornerstone of national economic security, President Bush has made American trade and competitiveness a top priority of his administration.

Competitive goods and services cannot be sold if foreign markets are closed. That's why in April President Bush again identified as his top trade liberalization priority the successful completion of the Uruguay Round of global trade talks by December and challenged our trading partners to do the same. The Administration has determined that writing a new set of clear and enforceable rules for world trade is the most effective way to increase U.S. exports, and to promote U.S. prosperity. Although China is not a member of the GATT, China and the U.S. do have trade relations based on the 1980 U.S.-China bilateral trade agreement. MFN tariff treatment is a central principle of that agreement just as it is in the GATT. As President Bush emphasized in his recent announcement renewing MFN trade status for China, MFN is not a special benefit extended to a few trading partners. It is the basis of everyday trade. The U.S. extends MFN status to the great majority of its trading partners, including nations with which we have serious differences such as South Africa, Iraq, Syria and Zaire. Consequently, the U.S. Customs Bureau avoids "Most Favored Nation" terminology in favor of the word "general" to describe the tariff rates applied to almost all countries.

## THE GROWTH OF U.S.-CHINA TRADE DURING THE LAST DECADE

In the ten years since the U.S. granted MFN status to China, bilateral trade has increased almost 700 percent, from 2.3 billion U.S. dollars in 1979 to 17.8 billion U.S. dollars last year. American exporters, in spite of China's economic retrenchment policies, sold 5.8 billion U.S. dollars in goods to China in 1989. Over 1,000 American companies have committed more than 4 billion U.S. dollars to long-term, U.S.-Chinese joint ventures, many of which produce goods primarily for export. Currently, approximately 500 American representative offices located in China conduct liaison and trading activities. In addition, many of the 900 American companies maintaining offices in Hong Kong are involved in trade with China.

## THE AMERICAN COMMERCIAL AND CONSUMER INTEREST IN MFN

American importers, as well as American retailers, will suffer serious business disruptions should MFN tariff rates not be renewed. Non-MFN duty rates are up to ten times higher than MFN rates. Tariffs on the 25 most important imports from China will rise from an average rate of 8.8% to 50.5%. Rather than attempt to market goods from China at substantially higher costs, American importers will be forced to look for alternative sources of supply. Larger importers will most likely make the difficult and costly adjustment. But numerous small importers dependent on Chinese suppliers might be forced out of business.

American-Chinese joint ventures located in China will not be exempt from non-MFN tariff rates. For those joint ventures exporting goods to the U.S., denial of MFN status will impede the sale of their products, compelling them to consider other markets and increasing the risk of investment loss in an already challenging operating environment.

The cost to the American consumer will also be substantial. China supplies one-third of the toys Americans buy, 15% of the imported apparel, 12% of the footwear, and a rapidly increasing volume of electronic products. Non-MFN tariffs will increase the landed cost of Chinese products by 40 percent. It is likely that a large percentage of the increased cost of these products will fall on the consumer. China's share of our imports in some categories is so large that a decision by the Chinese not to sell goods to the U.S. might lead to consumer shortages and higher retail prices in the near and intermediate term.

It is almost certain that the Chinese government will respond to a U.S. denial of MFN status for goods produced in China by rescinding MFN status for American produced goods. This will hurt American exporters, a group which is the centerpiece of our strategy to increase American trade competitiveness. Major exports at stake are:

- wheat (1.1 billion U.S. dollars in 1989)
- aircraft and aerospace equipment (China has imported an average of close to half a billion dollars worth of U.S. aircraft in each of the last five years)
- fertilizer (487 million U.S. dollars)
- cotton (259 million U.S. dollars)
- timber and paper (262 million U.S. dollars)
- computers and machinery (342 million U.S. dollars)
- acids (162 million U.S. dollars)

Substantially higher tariffs on American goods in China will effectively exclude U.S. exporters, many of whom have spent the last decade building their contacts and business, from the Chinese market. Apart from any other possible forms of Chinese government retaliation against American products, China, which has limited foreign exchange resources, would certainly look to a number of our most prominent trading competitors for its import purchases. Thus, our international competitiveness will suffer.

The consequences of a denial of MFN status will directly undermine the Administration's trade promotion effort. Recently, President Bush directed the Economic Policy Council to undertake a Commercial Opportunities Initiative to assist U.S. exporters in their aggressive pursuit of opportunities in international markets. Denial of MFN status for China will undoubtedly send our exporters a contrary message.

## U.S.-CHINESE GOVERNMENT COMMERCIAL RELATIONS

Over the last five years, China has emerged as a significant force in regional and world trade. Foreign trade as a percentage of GNP rose from 14% in 1981 to 28% in 1989. The U.S. is now China's third largest trading partner and largest export market. China is the tenth largest U.S. trading partner, up from fifteenth in 1981.

Increased U.S.-China trade and growing U.S. investment in China's economy have enabled us to engage Beijing in substantive dialogue on both bilateral and multilateral issues important for

U.S. economic interests. On the multilateral side, for example, we have, in the context of China's application for GATT membership, been urging China to continue its market-oriented reforms and to accept international trade norms. This is a long-term process, but one that is of enormous importance for U.S. business and the continuation of an open global trading system. The maintenance of a stable bilateral trade relationship enhances our ability to exert a positive influence on Beijing in these areas.

The existence of a sound commercial relationship has also enabled us to engage China on a variety of bilateral trade issues. Improving market access for U.S. business is one of our top priorities. China is not yet a GATT member. Therefore, it is not bound by GATT trade disciplines, and our ability to have a meaningful dialogue on trade issues is more important than it is with other trading partners who are GATT members. Resolving trade and investment disputes is another priority. Under the auspices of the Joint Commission on Commerce and Trade (JCCT), we have established working groups to discuss these disputes. Over the past year, we have had productive discussions with the Chinese and have made concrete progress on several cases. Although China remains under close scrutiny under the Special 301 provisions of the Omnibus Trade and Investment Act, negotiations with the Chinese Government during the last two years have resulted in commitments to improve intellectual property rights (IPR) protection.

We still have serious concerns about a number of China's unfair trade practices and obstacles to foreign investment. These include mandatory export quotas for foreign-invested enterprises, import substitution policies, restrictive quality requirements for and quotas on consumer goods imports, and protectionist regulations that deny U.S. service industries fair access to the Chinese domestic market. We are also concerned about our growing trade deficit with China, which has resulted from these market access problems as well as China's current policy of economic retrenchment. We are more likely to make progress in resolving these difficulties within the framework of a sound commercial relationship, for which MFN is essential, than in a deteriorating trade relationship, which would almost certainly develop if we withdraw MFN.

## THE U.S. AS AN INTERNATIONAL TRADE REFORM LEADER

Yet another consequence of a denial of MFN status may be damage to America's reputation as a reliable trade partner. As President Bush mentioned recently, our economic competition will not join us in denying MFN status to China. Approximately 100 nations grant China MFN trading status. We are the only country considering the rescission of MFN. The United Kingdom and several of China's Asian trading partners, including South Korea, Japan and Singapore, urged the President to maintain MFN status because their economic interests would be adversely affected by a denial, and they view China's integration into the regional economy as important for political stability in Asia. Thus, aside from the damage to our trade competitiveness, a denial of MFN for China may indicate to the world a willingness to undertake unilateral, short-term measures burdening trade while we strive to change the international rules of trade at the GATT based upon multilateral cooperation.

## THE HONG KONG-U.S. TRADE RELATIONSHIP

Another casualty of a denial of MFN status will be the extensive Hong Kong-U.S. trade relationship. Hong Kong's economic prosperity is closely linked to the growth of trade in Southern China. Hong Kong companies are the largest investors in China, employing about 2 million people in Guangdong province alone. Thus, many of the most successful "Chinese" exporters are actually businesses based in Hong Kong. The value of Chinese made goods reexported through Hong Kong to the U.S. in 1989 was 8.5 billion U.S. dollars, accounting for more than one-third of all Hong Kong reexports of Chinese products. Most of the 900 American firms based in Hong Kong depend directly or indirectly on China trade. An estimate of the economic cost to Hong Kong of the denial of MFN is 20,000 jobs and almost 10 billion dollars of trade over the next year.

## CHINESE ECONOMIC REFORM

In China, the burden of the MFN denial will fall disproportionately on the primary engine of economic reform in China - the economies of the coastal provinces. In Guangdong Province, for example, nearly 10 percent of the total provincial production is now devoted to supplying the U.S. market. The managers of export-oriented ventures advocate faster reform because their profits depend on China's integration with the world economy. Many of these ventures are either foreign-owned or provincially controlled. They do not originate from the state sector of the economy controlled by the central government in Beijing. They are examples of the benefits that market-oriented practices bring to the Chinese economy. Denial of MFN may well cripple this most progressive, vibrant part of China's economy. Also, it will constrain commercial and personal interchanges between American business people and their Chinese counterparts which have helped to liberalize trade practices in China over the past decade.

## CONCLUSION

In renewing MFN for China, the President took all relevant factors into account. Therefore, it is neither necessary nor desirable to broaden the Jackson-Vanik Amendment to include criteria unrelated to freedom of emigration or to link MFN trade relations with broader foreign policy concerns in any legislation.

Terminating MFN will have serious adverse consequences for U.S. competitiveness and upon our efforts to open markets worldwide. With over one billion people, China must remain a significant market for our products. China continues to affirm its Open Door Policy. Those who engineered the violence of June 1989 in China and the continuing repression are unlikely to bear the economic costs associated with a denial of MFN. Instead, American businesses and their employees, American consumers, and the people of Hong Kong and progressive areas in China will suffer.

# Views of AVIA Group International
# of Portland, Oregon
# on
# Maintaining Most-Favored-Nation (MFN) Status for The Peoples Republic of China

## I. INTRODUCTION -- AVIA AND THE AVIA POSITION

AVIA Group International, a Portland, Oregon-based company, was founded ten years ago and is now a market and technological leader in aerobic and other athletic footwear. In 1989, AVIA generated $196.2 million in total sales and employed over 200 people in its Beaverton and Portland, Oregon facilities.

For the reasons presented forthwith, AVIA strongly urges the Subcommittee on East Asian and Pacific Affairs and Congress to support maintaining MFN status for the Peoples Republic of China.

## II. REPEAL OF CHINA'S MFN STATUS -- THE COSTS

### A. The Chinese People

Many business interests have explained the economic impact of eliminating China's MFN status. AVIA, however, wants to compliment that analysis with our assessment of the human costs which will paid by the Chinese people if China's MFN status is eliminated.

AVIA personnel have been travelling to the Peoples Republic of China regularly for the past two years. The transformation we have seen in the workers in non-government factories has been remarkable. The factories that we work with are privately owned, capitalized by Hong Kong/Taiwan entrepreneurs, and are relatively free of government regulation. Approximately one year ago, as these factories were opening, the new workers were about what one would have expected -- colorless, regimented and dour. Now they are stylish, anxious for promotion, hungry for overtime, and more outgoing. It is gratifying to see the incentives for the free enterprise system at work.

The influx of free-market ideas, and a higher standard of living brought about by the opening of trade a decade ago, may have been the most important impetus to the democratic movement that erupted a year ago in China. Likewise, a cut-off in trade and withdrawal of Western economic influence in China could precipitate further political repression of and economic injury to the most liberal, entrepreneurial sectors of the Chinese economy.

Trade between the U.S. and the P.R.C. exposes many Chinese people to American products and American people, and provides them the opportunity to work in an environment where incentive, expression and entrepreneurship are encouraged and rewarded. It also provides the opportunity for many workers from the interior of China to work in the industrialized coastal areas where they are exposed to Hong Kong and Taiwan media, and therefore, can gain a better understanding of the Western way of life.

In spite of the oppressive regime in Beijing, AVIA believes that in the end, it will be the thinking of the Chinese people, influenced by foreign trade and cultivated by Western ideas, that will provide the spark that eventually allows the Chinese people to free themselves of the chains of the Chinese government. Severing the U.S.'s economic ties with China and sending the P.R.C. into an economic headspin will not force the Chinese government to end its human rights abuses, it will only eliminate the gains that have been made by the West as they increase their interaction with the Chinese people.

Withdrawal of MFN status would close these factories, and many like them, and send these workers back to the rice paddies in Western China with the message that the American people will not buy their products. They will also no longer be exposed to Western concepts. Compared to the current message they take back home during their annual New Years pilgrimage, this will be profoundly detrimental to the thinking of many Chinese people.

### B. AVIA

Presently, AVIA manufactures roughly 50% of its footwear products in the P.R.C. U.S. import duties on AVIA footwear imported from China range from 6-37.5%. If China's MFN status is eliminated, these duties will increase by 25%, an increase which more than negates the 10% cost-of-labor savings AVIA currently realizes by sourcing its shoes in China.

Moreover, if China's MFN status is withdrawn, AVIA, along with hundreds of other U.S. companies facing similar circumstances, will be faced with a lose-lose battle. Specifically, if AVIA continues to manufacture its footwear products in China, it will be forced to pay the 25% higher U.S. import duties on AVIA shoes. If, on the other hand, AVIA chooses to source its shoes in other, higher labor cost countries like Korea and Taiwan, it will incur greater production costs. In each case, AVIA must pay more to get its footwear products onto the shelves of American stores, a cost ultimately borne by the American consumer.

### C. U.S. Importers and Exporters

Since opening trade with China a decade ago, total U.S. trade with the P.R.C. has almost tripled, from $5.6 billion in 1981 to more than $14 billion in 1988. This success, along with the future benefits afforded to U.S. manufacturers from continued and expanded trade with China, would be severely threatened by eliminating China's MFN status. The adverse effects from MFN elimination would include actual out-of-pocket losses for importers and retailers, lowered returns on the more than $4 billion in U.S. investment in China, a 40% increase in U.S. duties on imported goods from China, and overall uncertainty as firms attempt to develop new sources of supply. Moreover, removing MFN status from the P.R.C. would also pull the rug out from under the close to $6 billion in U.S. exports to China, since China would almost certainly seek, and find, new import sources from countries that do not have a de facto prohibition on China's exports.

For the reasons presented above, AVIA strongly urges the Subcommittee on East Asian and Pacific Affairs and Congress to support maintaining MFN status for the Peoples Republic of China.

90-24

# SUBMITTED STATEMENT OF MORTON BAHR, PRESIDENT COMMUNICATIONS WORKERS OF AMERICA BEFORE THE SUBCOMMITTEE ON TRADE OF THE HOUSE COMMITTEE ON WAYS AND MEANS ON MOST-FAVORED-NATION (MFN) TRADE STATUS TO CHINA

June 26, 1990

Mr. Chairman and members of the Senate Finance Committee, myname is Morton Bahr, President of the Communications Workers of America. I am testifying today on behalf of my union, and the AFL-CIO which represents more than 14.5 million workers in the United States. As co-chairman of AFL-CIO's Task Force on China, I have closely monitored events in that country for the last two years.

President Bush's decision to continue to grant MFN trade benefits to China is a grave moral and political error. It shouts to the world, and to the Chinese leadership in particular, that the United States will continue with "business as usual" despite the existence of a brutally oppressive regime. No convoluted interpretation of the oriental concept of "face" can hide the basic choice the President has made. Money was deemed more important than standing up for individual rights. This President would rather wrap himself in a debate on flag burning rather than standing up for those values that make our country great. We believe the actions of the Chinese government demand the revocation of MFN trade status.

Attached is a statement adopted by the AFL-CIO's Executive Council that explains this position. We hope that Congress will provide legislation to accomplish this goal.

As representatives of workers in this country, we were gratified to see workers in China play a major role in the demonstrations for democracy and to note that high on their agenda was the formation of truly autonomous trade unions. In those heady days of May and early June of 1989, we received reports of independent unions being organized in many parts of the country. In Beijing, an autonomous workers union led by Hong Dongfang signed up almost 30,000 members in just a few days and issued a manifesto. The manifesto said that while the union would operate within the bounds of the constitution, it would be independent from the Chinese Communist Party, and therefore, different from the government-run organizations that claimed to represent workers' interests.

We now know that the formation of independent unions in China helped precipitate the brutal repression that the world witnessed. Deng Xia-ping said that these unions were symptoms of what he called the "Polish disease". No wonder then that his first target in Tiananmen Square was the tent headquarters of the Beijing union. Almost all of the union's key leaders are now in jail or have disappeared. And unlike the treatment of students and intellectuals, the regime in Beijing has killed workers with impunity.

If the events of the last year have taught us anything, it is that the Communist authorities in China initiated economic changes, not because they intended to loosen their hold on power, but to strengthen it. They sought to put a Band Aid on a failing economic system. When Deng said that as long as the cat caught the mouse he did not care what color it was, he was not saying that the party should give up its strangle- hold on the country. He saw no contradiction in Party cadres running enterprises on a profit/loss basis and enlisting the help of foreign capitalists in that effort.

It is very important to understand what "free enterprise" means in the PRC. In the southern province of Guangdong, the PRC's testing ground, foreign investors, mainly from Hong Kong, but also the United States and even Taiwan, rushed to take advantage of an incredibly low-wage, pliant labor force. Here, the Chinese government guaranteed that troublesome workers would not be a problem, and that bureaucratic obstacles would be swept away.

This Committee should know that "free enterprise" in the PRC is also closely tied to China's vast forced labor gulag. Experts estimate that these labor camps could hold as many as 10,000,000 people. These camps have been put on a profit basis in order to comply with Deng's new economic policies. They are required to earn hard currency by producing for export. Not surprisingly, the number of these prison camps has mushroomed in Guangdong. We know that they are a part of the subcontracting system that feeds the region's thousands of joint ventures. They are also in the business of offering inmates to foreign companies as employees.

The time has come for the Congress to address the myth that trade with China somehow promotes democracy there. On the contrary, trade with China serves to perpetuate an evil and corrupt system run by the Communist Party. Over the last several months the AFL-CIO has heard that the removal of Most Favored Nation status would deal a body blow to these enterprises. I have no doubt that this would be true and that is why the removal of Most Favored Nation privileges makes sense.

Another myth that we have heard is that the removal of MFN status would cause harm to the American consumer. This argument is most often presented by businessmen who may have just left Hong Kong, Korea, Taiwan or the U.S. to escape paying higher wages to workers, or to get around new environmental regulations in these countries. Just a few weeks ago we learned that the head of Taiwan's largest plastic company threatened to move to China for that very reason. This is not an issue of consumer costs, but one of employer greed.

Quite frankly, such arguments from the business community about the cost of a break in trade with China sell the American people short. The American people have spent billions of dollars to defend democracies overseas. Business should also be willing to sacrifice a bit for the cause of freedom.

We have also heard that the people of Hong Kong will suffer greatly if China loses Most Favored Nation status. This is another myth. Right now we do know that there has been a mass exodus of manufacturing jobs from the colony to the PRC. That certainly would stop. Some companies which left might even resume operations there. Indeed, a prominent businessman from Hong Kong has stated that political harm to Hong Kong is greatly over estimated. Eliminating MFN has nothing to do with the real reason for the problems of Hong Kong. Rather, it is the uncertainty over what will happen in 1997, when Hong Kong is due to be absorbed by the PRC.

And finally there is the national security argument - that we cannot afford to anger a nation which has great influence in the world and which can cause trouble through sales of missiles and other weapons. Such an argument smacks of appeasement and blackmail.

In sum, all the arguments that support the status quo are based on the proposition that the leaders of China are honorable men with whom a bargain can be struck. But can you really say this about men who ordered the cold blooded murder of their fellow citizens in Beijing and who have systematically terrorized an entire population in Tibet?

Can you say that about men who have no compunction about selling missiles -- and now we hear rumors of chemical weapons -- to terrorist states in the Mideast?

Can you say this about men who order forced sterilization of women?

Can you say this about men who support the Khmer Rouge in Cambodia?

While the case is clear that China is in violation of Jackson-Vanik immigration requirements, the AFL-CIO also believes that Congress should deny MFN benefits to China because of its repression of human rights.

For too long this Administration has treated China's rulers in a special way. In doing so, it has accepted human and labor rights violations which have been condemned in Cuba, Libya, South Africa, the Soviet Union, Nicaragua and Chile. This double standard should end. The first step in that process should be the withdrawal of Most Favored Nation Trading status from China.

Before the:
Subcommittee on Trade
Committee on Ways and Means
U. S. House of Representatives

## STATEMENT ON UNITED STATES-CHINA TRADE RELATIONS

SUBMITTED BY
JAY MAZUR, PRESIDENT,
INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO
JUNE 25, 1990

This statement is submitted on behalf of the International Ladies' Garment Workers' Union, AFL-CIO. Our Union has some 200,000 members employed in the production of women's and children's apparel, accessories and related products. They live and work in more than two-thirds of the fifty states. Our members of Chinese extraction constitute one of the largest of the many ethnic and racial groups that make up the mosaic of our Union.

Your Committee's notice of hearing indicates that it seeks views on the various Joint Resolutions and Bills before it on trade relations with China and more specifically proposals to terminate China's Most Favored Nation status. The International Ladies' Garment Workers' Union fully supports the withdrawal of MFN status from China and urges the Congress to take appropriate steps in that direction. This action, severe as it may be, is fully merited by China's violation of workers' rights and human rights.

The ILGWU has several specific concerns over trade relations with China:

- A flood of low-wage apparel imports is wiping out thousands and thousands of U. S. jobs.
- Chinese workers are denied basic freedoms and the right to join unions of their choosing.
- Garments are produced by unpaid "slave" labor in the Chinese prison system.
- U. S. failure to signify its objections to China's unacceptable behavior by withdrawing MFN status would suggest that the United State condones such practices and that the U. S. is unconcerned about how China treats its citizens.

Because of its huge population and ultra-low wage levels, China has grown rapidly as a production center for the world's clothing. Firms from Japan, Hong Kong, and above all the United States are using China's sewing factories, they are furnishing China with know-how and are purchasing the output of these plants.

China's apparel industry offers nothing in the way of innovation or creativity. It is utilized almost entirely as a production area for goods designed in other countries. China's one advantage is its low wage level. The ILGWU Research Department, using data from the ITC and other sources as a base, estimates that the average compensation (including all fringes) of a garment worker in China is 19 U. S. cents per hour or about 3 percent of the compensation of a U. S. garment worker. Because of the virtually unlimited labor supply and the extremely low wage level, China is relatively unconcerned over the productivity in its factories or the pirces its goods command.

Today, China is the leading exporter of clothing to the United States. In 1989 it shipped us 809 million square meters of clothing made of textile fibers (measured in equivalent fabric used in its manufacture) and accounted for 13.4 percent of total U. S. apparel imports. Since 1980, China's shipments of apparel to the United States have increased six-fold.

Imports of apparel from China have even grown since the horror of Tiananmen Square. In 1989, shipments to the United States were up 27.3 percent (measured in square meters) and rose 6.7 percent in the first three months of 1990. And these gains have been taking place in the face of a lackluster retail market and while domestic apparel employment is at its lowest in half a century.

Withdrawal of MFN status from China would have an uncertain, but probably modest impact on apparel trade with that country. In the years prior to 1980, when China obtained MFN status, shipments to the United States grew rapidly in spite of the much higher duties then in place.

Loss of MFN status would properly and publicly hold the Chinese government responsible for their inhuman, undemocratic, anti-worker terror tactics.

The world spotlight focused on only one aspect of the Tiananmen Square massacre and its aftermath -- the plight of the students and other intellectuals. But the real story, generally ignored, was the Chinese government's terror against workers who dared to assert their own rights.

Among the strongest supporters of the student insurgents were the workers. But as events progressed the workers began to organize themselves and dared to put forth claims to rights to independent labor organization and self-representation. The Chinese government, mindful of the recent role of the Polish workers, aimed its most repressive actions against the worker groups arrayed on the periphery of Beijing.

I commend to your Committee items such as the article by Robin Munro: The Real Story of the Slaughter in Beijing (The Nation, June 11, 1990) or Report of the AFL-CIO Committee on China (February 20, 1990) which finally bring these horrible events to public light. Copies of these two documents are attached to our testimony.

China has a long history of repression and worker exploitation apart from the events of last year. On June 8, Sen. Helms released a State Department cable which noted manufacturing activity, including sewing, being done in China's prisons under contract to local factories. The cable notes that while the prisons are paid for the work done, the prisoners receive no pay. Forced labor practices such as these must be condemned.

Recently, in response to a petition by the AFL-CIO, the Overseas Private Investment Corporation found that China violates basic labor rights standards.

Now the time has come for the highest levels of the United States government to take a forthright stand against China's anti-worker, anti-human policies. It would have been appropriate for the President to take the necessary steps in this matter. But failing that, the responsibility falls on the Congress. Profits must not be allowed to come before human rights.

# ARTICLES.

REMEMBERING TIANANMEN SQUARE

## Who Died in Beijing, and Why

ROBIN MUNRO

Among the revolts that ignited the Communist world in 1989, China's was the great failure. On the night of June 3-4 the Chinese Communist Party showed the world that it would stop at nothing to maintain its monopoly of power.

But what exactly did happen that night? Few modern events have been covered as intensively by the Western news media as the Tiananmen Square democracy movement. Yet in crucial respects the denouement remains shrouded in myth. In the immediate aftermath, some basic notions took hold: Journalists spoke routinely of the slaughter of students, of "the massacre in Tiananmen Square." A year later, that phrase has become the official shorthand for what happened in Beijing.

A "revisionist" trend currently emerging in some Western circles maintains that there was no massacre. That is preposterous. A massacre did take place—but not in Tiananmen Square, and not predominantly of students. The great majority of those who died (perhaps as many as a thousand in all) were workers, or *laobaixing* ("common folk," or "old hundred names"), and they died mainly on the approach roads to western Beijing. Several dozen people died in the immediate environs of the square and a few in the square itself. But to speak of that as the real massacre distorts the citywide nature of the carnage and diminishes the real political drama that unfolded in Tiananmen Square.

Hundreds of reporters were in Beijing that night, but very few were present for the climactic clearing of the square by the army. Many were on the real killing grounds of western Beijing, along Changan Boulevard and Fuxingmen Boulevard, and reported vividly and accurately on what they saw. Some had been arrested, and others were pinned down behind roadblocks. Others still were back in their hotels for early-morning filing deadlines. Most who were in the vicinity of the square when the army arrived, however, left quickly and out of legitimate fear for their safety.

But there were also more profound questions about how the Western media saw their role in the events in Beijing. The whole world was watching, and reporters often saw themselves as guarantors of the students' safety. There was something in the pacifist idealism of the students that triggered memories of the 1960s and the civil rights movement, riveting Western attention on the students and causing the crucial role of the *laobaixing* to be largely overlooked.

And there was more: some predisposition, perhaps, on the media's part to believe in a massacre in the square as the necessary consummation of an allegory of innocence, sacrifice and redemption. The students' own language may have contributed to this. On May 13 the hunger strikers in the square declared, "Our bodies are still tender and not full grown, and the prospect of dying frightens us all; but history calls us and we must go." Writer Ross Terrill, interviewed on a June 29 ABC special by Ted Koppel, recalled one student telling him, "We are now ready to face death, and we don't want you to have to be part of that. Please go home." And the reporters, for the most part, did so. Into the resulting vacuum rushed the most lurid tales of what then supposedly took place.

This account seeks to explain why the real massacre took the shape it did. It points to the regime's relative tolerance of the students and to its horror of the working-class unrest that threatened to turn the protests into a full-fledged insurrection. It also looks at the critical implications of the fact that sections of the Chinese Army were clearly not prepared to carry out orders on the night of June 3-4.

Some people do accept that the bulk of the killing took place outside Tiananmen Square. Koppel, for example, in his June 29 special, noted the distinction but downplayed it as a "loophole" to be exploited by the Chinese government. But insisting on factual precision is not just a matter of splitting hairs. For the geography of the killing reveals much about the government's cold political logic and its choice of targets—as well as the likely scenario of the next round of pro-democracy struggles in China. The regime squandered its remaining popular legitimacy in a single night of bloodshed, and unless it can somehow learn the art of compromise, the fact that a sizable section of "the masses" was ready to fight back, together with the potential unreliability of the army, provides the ingredients for a possible replay of a Romanian-style revolt.

Journalism may be only the rough draft of history, but if left uncorrected it can forever distort the future course of events. Nothing serves the cause of China's students and *laobaixing* better than the unvarnished truth, for it speaks eloquently of their heroism and of the regime's cowardice and brutality. But Western criticisms based on a false version of the clearing of Tiananmen Square have handed the butchers of Beijing needless propaganda victories in the U.N. and elsewhere. They have also distracted attention from the main target of the continuing repression: the mass movement that eventually superseded the students' protest actions. The credit for inspiring the movement and upholding the banner of nonviolence will always belong to the students. But only by refocusing attention on the *laobaixing* will we understand why China, a year later, continues to be ruled by the jackboot, the rifle and the thought police.

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*Robin Munro, research associate on China for Asia Watch, a New York City–based human rights organization, has been a close observer of China's democracy and human rights movement since 1978. He gratefully acknowledges the cooperation of Richard Nations in making available interview material. Research assistance by Deborah Schwartz.*

## I.

On April 26, 1989, the *People's Daily* published its now infamous editorial condemning the student protest movement in Beijing as being, in essence, "a planned conspiracy, a riot, whose real nature was to fundamentally negate the leadership of the Chinese Communist Party and to negate the socialist system." The editorial was the first definitive statement by the Chinese leadership on the student movement since its inception on April 15, the day reform-minded party leader Hu Yaobang had died.

But if a conspiracy to overthrow the socialist system had been launched in the Chinese capital, whom did the party point to as the main culprits? Surprisingly, not to the students. According to the editorial, "The Party and government [take] a tolerant, restrained attitude to certain inappropriate words and actions of emotionally excited young students." On the other hand, "these facts demonstrate that an extremely small number of people were not involved in mourning Comrade Hu Yaobang. . . . Their goal was to poison people's minds, to create turmoil throughout the country, to destroy political stability and unity." As the official conspiracy theory developed, the authorities charged that the students were being manipulated by "outside elements" with "ulterior motives." This meant, first of all, dissident Chinese workers and (to a lesser extent) intellectuals, and second, foreign "reactionaries." This line of analysis was upheld during the military crackdown of June 3-4, and it underpins the repression that continues to this day.

Chinese political tradition has long conferred a limited degree of tolerance and immunity on students, a certain latitude of action not shared by other groups—and especially not by the workers. This relative privilege was enhanced during the decade of reform in the 1980s, as Deng Xiaoping moved rapidly toward a historic compromise with the intelligentsia (whom Mao Zedong had ruthlessly persecuted) in order to advance China's modernization program and facilitate the economic opening to the West. This official stance was fraught with problems, of course, since greater freedom for the students and intellectuals inevitably brought with it the danger of corrosive "bourgeois liberal" ideas from the West.

But that was nothing compared with the other danger that had preoccupied the party since the start of the reform process. This was the prospect of organized unrest and dissent among the urban working class, along the lines of Poland's Solidarity. Above all, it was the rapid trend toward just such a movement—what China's leaders call the "Polish disease"—in Beijing and other major cities last spring that determined the uncompromising character of the crackdown when it finally came. The students had initiated the movement and brilliantly outmaneuvered the government but with the intervention of broader social forces on Tiananmen Square, the students soon lost control of the situation and their leadership became chronically divided.

The other major factor behind the crackdown was the increasing ideological defection of the party apparatus itself to the students' cause. By mid-May, even sections of the public security service, law courts and military—the very backbone of the dictatorship of the proletariat—were beginning to appear in the square in open support of the pro-democracy movement. On June 14, in an illustration of the party's paranoid vision of events, the Beijing Propaganda Department concluded that "a certain small group of people" had "plotted to arrest party and state leaders and seize power in a 'Bastille'-style attack."

In retrospect, the logic of the massacre of June 3-4 is clear. The students responded to the draconian *People's Daily* editorial not, as expected, by retreating to their campuses but by stepping up their protests. The demonstrations drew massive public support, and the authorities were thrown into a state of confusion and paralysis from which they did not emerge until after June 4. On May 13, after a brief hiatus of failed "dialogue" with the government, the students launched a mass hunger strike at Tiananmen Square. By May 17, the sight of as many as 2,000 idealistic young students collapsing from heat and starvation brought more than a million ordinary Beijing citizens into the square in a moving display of human solidarity. "The students speak on behalf of all of us," they would tell any foreigner who cared to listen. Having been passive spectators, the *laobaixing* now began to act as a bastion of active support for the students, bringing food and other supplies to the square on a round-the-clock basis.

This specter of emerging cross-class solidarity led directly to the authorities' decision to impose martial law in Beijing on May 20. But again, the strength of the popular response caught China's leaders unawares: The tanks and troop columns were halted at all major points of entry to the city by a human wall of peaceful protesters, and after a few days the soldiers were forced to withdraw to their barracks in the suburbs. Action groups formed spontaneously throughout Beijing. These included "dare-to-die squads" of workers and other *laobaixing*, who vowed to die rather than let the army into the city; the workers' pickets, who, together with formidably organized contingents of student pickets, patrolled the neighborhoods and maintained order (the public security forces and traffic police were nowhere to be seen after May 20); and the "little flying tigers," large groups of youths on motorcycles who sped around the city on liaison missions for the movement. The *laobaixing* were now in a posture of peaceful, nonviolent but direct confrontation with the government and army, and similar "turmoil"—to use the party's term—rapidly emerged in dozens of other cities.

Moreover, the *laobaixing* were beginning to articulate their own grievances. These were mostly a product of the decade-long economic reforms, which, though broadly popular, had also generated a range of serious social tensions: sharp income polarization, spiraling commodity prices, an acute shortage of acceptable housing and—last but by no means least—rampant corruption, speculation and profiteering by government and party officials. The authorities probably overestimated the political challenge that these new workers' and citizens' groups posed. The groups were spontaneous, and while their visible impact and propaganda effect were considerable, they lacked any distinct ideological framework or program. But the party's alarm was real.

However, the birth of the Beijing Workers' Autonomous Federation a few days after the abortive imposition of martial law posed a much greater threat. That is because this group, headquartered in a couple of scruffy tents in the northwest corner of Tiananmen Square, raised an issue that had been taboo in China since 1949: the right of workers to engage in independent labor organization and self-representation. Such a demand struck at the very core of the Chinese Communist state, for the party's main claim to legitimacy is that it rules in the name and interests of the "laboring masses." Although its active membership remained relatively small, its formal membership soared during the first few days of June, reaching a peak of more than 10,000 enrollments after three of its leaders were secretly arrested on May 29. Autonomous workers' groups quickly sprang up in most of China's major cities.

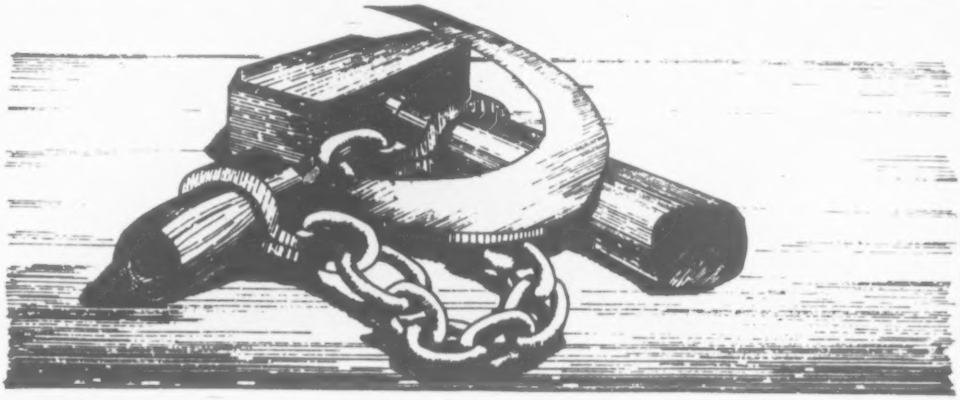
This was the "cancer cell" that the authorities had feared from the outset would appear if legal recognition were ever to be conferred on the student organizations. In the government's eyes, if the statue of the Goddess of Democracy, erected in the square at the end of May, represented the arrogant defiance of the students and the symbolic intrusion of "bourgeois liberalism" and "Western subversion" into the sacred heart of Communist rule, the crude red-and-black banner of the Beijing Workers' Autonomous Federation, not a hundred yards away from the goddess, represented the terrifying power of the workers awakened. Both had to be crushed, and the rapidly defecting party apparatus had to be frightened and shocked back into line.

In the spirit of the April 26 editorial, the students and intellectuals would, by and large, be spared. The *laobaixing*, on the other hand, would be mercilessly punished in order to eradicate organized popular unrest for a generation. The arenas of conflict on the night of June 3-4 overlapped, but they were essentially separate. The real killing grounds, the theater of the popular uprising and massacre, lay mainly on the periphery, above all along western Changan Boulevard and out to the western suburbs. Here, the *laobaixing* fought and died to defend the center: Tiananmen Square. The prodemocracy movement stayed firm in its commitment to the principles of dialogue and nonviolence, and it resorted to force on that final night only out of desperation and rage. Once the army had embarked on the rape of Beijing it was clear that all was lost. In the eye of the storm, around the Monument to the People's Heroes, stood the students—brave, resolute but ultimately protected within a charmed circle. At the last minute, in the square itself, with its most lethal resources arrayed against the moral authority of youth, the government stepped back from the brink of a slaughter of incalculable proportions.

### The Bloody Road to Tiananmen

There were more than 1,000 foreign journalists in Beijing on the night of the army's final drive to clear Tiananmen Square, and many of them followed the advance of the main People's Liberation Army (P.L.A.) assault force through the western suburbs as it plowed murderously through the crowds of *laobaixing* that formed at all points to block its path. Most of the foreign film footage of the massacre was shot in this sector of the city, in neighborhoods like Muxidi, Fuxingmen and Liubukou, where hundreds of unarmed protesters and innocent bystanders were mowed down by random gunfire from semiautomatic weapons. The troops apparently made no distinction between these people and the small number who hurled stones, rocks and Molotov cocktails or set fire to vehicles that had been used as roadblocks. Since this main theater of the massacre was by and large well covered by the foreign news media, we will focus here on some lesser-known aspects of the action along western Changan and Fuxingmen—subsequently dubbed "Blood Boulevard" by the people of Beijing.

As far as is known, the first violence came at around 10:30 P.M. on June 3 at Gongzhufen, some two miles west of Muxidi, where vanguard contingents of the assault force used about twenty armored personnel carriers (A.P.C.s) to crash through bus barricades that were blocking the circular intersection. A West German student living in Beijing at the time witnessed the incident and reports that many people



ILLUSTRATIONS BY AI WEI WEI

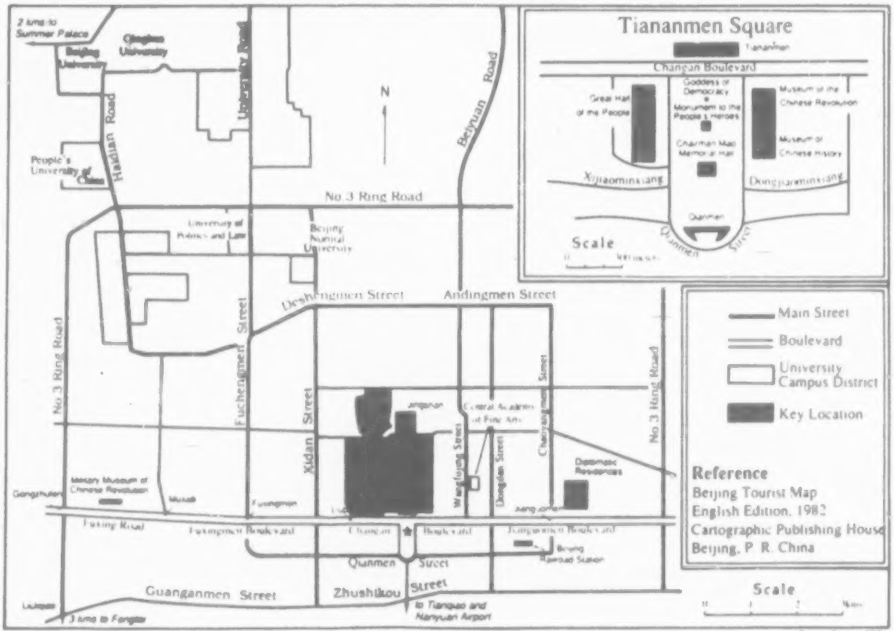
were crushed to death as the A.P.C.s went through and soldiers fired indiscriminately at the crowd. A Finnish journalist who was also standing nearby reports seeing two soldiers with AK-47 assault rifles suddenly descend from the tenth truck of a convoy of fifty or so that drove through the gaps in the barricades. "They were torn to pieces" by the crowd, she says. "It was a horrible sight." The pattern of the night's conflict, then, was set from the start: Random and brutal killings by the army came first, followed swiftly by a small number of revenge killings of troops by distraught, and increasingly insurgent, citizens.

Why did the troops behave with such savagery? At Gongzhufen they had been alerted to the lethal realities of mass resistance, provoked by their violent invasion of the city and by their evident determination this time (in contrast to the halfhearted effort of May 20) to retake Tiananmen Square. Once they saw that terror tactics had conspicuously failed to subdue the crowds, the troops were fearful for their lives, and as they advanced slowly toward Muxidi, they responded by escalating the level of terror. From there on, the P.L.A. acted almost as if it were confronting Gen. Vo Nguyen Giap's battle-hardened armies in the hills along the Sino-Vietnamese border rather than unarmed civilians. Local residents and Western journalists who visited the hospitals in western Beijing that night describe them as resembling abattoirs.

Accidental factors, too, may partially explain the army's paroxysm of killing. The troops had intended to meet up at Muxidi with a unit of 600 local officers of the People's Armed Police (PAP). (They may well have expected major resistance, for three people had been crushed to death by a PAP jeep at Muxidi the previous night, provoking angry protests.) But the PAP detachment, which was familiar with the layout of Beijing and was supposed to spearhead the army assault and lead the troops into the square, never made the rendezvous: It had been surrounded, blocked and in the end dispersed by the *laobaixing* as it made its way through the alleyways around Yuetan Park, about a mile and a half northeast of Muxidi. This unexpectedly deprived the troops of their paramilitary escort.

For political reasons, also, the army had its reasons for not being found wanting. As early as May 24 or 25, Gen. Xu Qinxian, commanding officer of China's elite 38th Army, had been arrested for failing to carry out martial-law orders (he was later court-martialed). This no doubt left other units eager to prove their zeal against the "counterrevolutionary

Beijing, June 3-4, 1989


2 kms to Summer Palace
Qinghua University
Beijing University
University Road
Haidian Road
People's University of China
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University of Politics and Law
Beijing Normal University
Deshengmen Street
Andingmen Street
No 3 Ring Road
Fuchengmen Street
Xidan Street
Central Academy of Fine Arts
Wangfujing Street
Dongdan Street
Chaoyangmen Street
No 3 Ring Road
Diplomatic Residences
Military Museum of Chinese Revolution
Gongzhufen
Muxidi
Fuxingmen
Fuxing Road
Fuxingmen Boulevard
Changan Boulevard
Jianguomen Boulevard
Beijing Railroad Station
Qianmen Street
Zhushikou Street
Guanganmen Street
Liuliqiao
3 kms to Fengtai
to Tianqiao and Nanyuan Airport
Tiananmen Square
Tiananmen
Changan Boulevard
Great Hall of the People
Goddess of Democracy
Monument to the People's Heroes
Chairman Mao Memorial Hall
Museum of the Chinese Revolution
Museum of Chinese History
Xijiaominxiang
Dongjiaominxiang
Qianmen
Qianmen Street
Scale
Main Street
Boulevard
University Campus District
Key Location
Reference
Beijing Tourist Map
English Edition, 1982
Cartographic Publishing House
Beijing, P. R. China
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rebellion." It is still widely believed in the West that most of the carnage was inflicted by the 27th Army. But according to military sources, the deputy commander of the 27th was booed when he appeared at a high-level Beijing conference on "propaganda theory" last September. He is said to have thrown down his cap in anger and frustration and exclaimed, "We in the 27th are being saddled with the blame for what our army brothers in other units did. Yes, we opened fire, but I guarantee that we didn't kill any of the *laobaixing*!"

China may have come closer to a Romanian-style military revolt than is generally recognized. According to a report in the *South China Morning Post* on December 28, P.L.A. Chief Political Commissar Yang Baibing revealed in a confidential speech earlier that month that "21 officers and cadres with ranks of divisional commander or above, 36 officers with ranks of regimental or battalion commander, and 54 officers with the rank of company chief 'breached discipline in a serious manner during the struggle to crush the counterrevolutionary rebellion' in June. In addition, 1,400 soldiers 'shed their weapons and ran away.'"

In the days that followed the massacre, the Chinese authorities repeatedly televised an astonishing piece of footage that showed dozens of A.P.C.s being torched by the crowd in the vicinity of the Military Museum, just west of Muxidi. The commentary said that many of the occupants had preferred to be burned alive rather than open fire on their compatriots; it also clearly implied that this had occurred in the early evening of June 3, before nightfall. This footage was a cornerstone of the government's "Big Lie," evidence of the "counterrevolutionary rebellion" that had obliged the government to respond with force.

The reality was very different. At about 9 A.M. on Sunday, June 4, several foreign witnesses, inspecting the devastation of the previous night, were stunned to see a column of some three dozen A.P.C.s suddenly appear from the west and come to a halt at the Muxidi intersection. The first vehicle had struck the remnants of a barricade; a second had run into its rear, bringing the convoy to a halt. A large crowd materialized from the neighboring alleyways and surrounded the now silent armored column. The first troops to emerge were beaten, and at least one is thought to have been killed. Only the intervention of student pickets, who negotiated safe passage for the troops, headed off a pitched battle and, perhaps, a fresh round of killing. Several hundred soldiers simply walked away, leaving behind their lethal hardware for the crowd to muse over. Within half an hour, all the A.P.C.s had been set on fire, and a towering column of black smoke could be seen for miles.

It may be no coincidence that this incident took place right outside the main offices of Central Chinese Television, from whose rooftop the scene was exhaustively videotaped. But a more significant explanation is that the troops actually deserted. A prominent West German Sinologist who was present described seeing soldiers escorted away from their vehicles. One A.P.C., he says, "opened the top lids, and a hand appeared waving a white piece of cloth. Soldiers emerged and gave their automatic rifles to the young men receiving them. They hugged."

I witnessed a somewhat similar scene on the night of June 3 to the east of Tiananmen Square, at the Jianguomen overpass, where a column of several dozen troop trucks was halted by large crowds as it tried to cross Changan Boulevard. Several foreign witnesses saw soldiers openly fraternizing with civilians and even posing for photographs. Just after midnight I saw one group of soldiers climb down from their truck and wander off slowly with tears in their eyes. Minutes later an A.P.C. came charging at full speed across the overpass from the east and smashed through the line of P.L.A. trucks, lifting one of them several feet into the air and splashing a young man's brains on the ground. Evidently the troops on the overpass had been identified as traitorous by the high command.

## II.

Tiananmen Square is the largest public space in the world. It extends over 100 acres, and no single eyewitness could hope to encompass the complex and confusing sequence of events that unfolded there on the night of June 3-4. My own account, therefore, is supplemented by the testimony of others who saw what happened at crucial moments.

I arrived at the square at about 1:15 A.M. Large crowds were fleeing eastward along Changan Boulevard. Continuous gunfire sounded from the northwest sector of the square, and a crippled A.P.C. lay blazing in the northeast corner, set afire by Molotov cocktails. Its tracks had been jammed with steel bars and traffic dividers. A CNN film unit and a number of British journalists were on the scene. According to John Simpson of the BBC, three A.P.C. crew members had been beaten to death and a fourth escorted to safety by student pickets. Jonathan Mirsky of the London *Observer*, who was beaten by armed policemen with truncheons just before I arrived, says he saw several people shot dead near the huge portrait of Mao on Tiananmen Gate.

Looking over to the northwest corner of the square, I saw with horror that the tents of the Beijing Workers' Autonomous Federation were in flames, and I ran over to see if any of my friends from the federation were dead or wounded. Twenty yards away, a menacing group of about 200 heavily armed troops stood facing the tents. This was the advance party of the main invasion force of the P.L.A., which would arrive at the square at around 2 A.M. after smashing its way along western Changan. By now the crowds had fled from this area. Only the figure of a young man was visible, wandering slowly around the burning tents and gathering up piles of documents, which he implored me to take to the students on the Monument to the People's Heroes. This I did.

Nearly all the students had withdrawn by now to the three tiers of the monument: 3,000 to 5,000 of them perhaps, huddled tightly together. Their makeshift tent encampment, which sprawled over an area of several hundred square yards to the north of the monument, was virtually deserted. The students seemed calm, almost resigned. There was no panic, though the stutter of gunfire could be heard on the fringes of the square and beyond. Abruptly the government loudspeakers boomed into life with an endlessly repeated message: Everyone was to leave the square immediately; a "serious counterrevolutionary rebellion" had broken out and the martial-law troops were empowered to clear Tiananmen Square by any means necessary.

At about this time, an American freelance journalist named Richard Nations was ducking gunfire in the far southwest corner of the square, where a major confrontation between troops and citizens had been under way since around 12:30 A.M. His notes were scribbled at the time: "Approximately 1:00 A.M.: Southwest corner, on Qianmen West street in front of Kentucky Fried Chicken. Barricade of several burning buses blocks the intersection. Riot police are forced into the street under a shower of rocks and glass. Student pickets or organizers seem to intervene to evacuate about 20-odd unarmed police/soldiers with shields and staves caught near burning buses. A tank races through, breaking up a roadblock, and a busload of troops disembark. Tracer bullets and sustained volleys." Several people were killed by troops in this confrontation.

Another witness to the clashes in the south was the renowned writer Lao Gui. At about 1:30 he wrote, "There was a continuous sound of gunfire coming from Zhushikou [about half a mile south of the square]. Red flares were going up all around. I met a Western reporter at the cypress trees by the Mao Memorial Hall who told me, 'I saw three people killed with my own eyes, their stomachs were blown open, down at Zhushikou.'" Other accounts suggest that at least several dozen people were killed by troops as the army forced its way up through the southern neighborhoods. Close to 2:00 a force of about a hundred troops tried to enter the square from the southwest corner. "Suddenly there was intense firing and bullets flying all over the place," says NBC cameraman Tony Wasserman, who was there. "And somewhere along the way someone gets it in the stomach and someone in the ankle. Before this, the crowd grabs some soldiers from the southwest corner again and they beat the shit out of them." A little later, according to CBS cameraman Derek Williams, "In came the paratroopers. . . . They were real shitkickers."

Meanwhile, in the northern part of the square, the main invasion force had begun to arrive from the west. I watched them arrive from a position to the west of the Goddess of Democracy. The first column of troop-transport trucks entered the square hesitantly, at a walking pace. Groups of infantry escorted them, at first just a thin line, but quickly increasing to a dense column, thousands of them, all wearing steel helmets and carrying assault rifles. They took about an hour to deploy fully along the northern edge of the square. Many more troops and vehicles were backed up, invisible to me, all the way down Changan to the west.

After the arrival of this main force, only a sprinkling of people—apparently not students but ordinary residents and workers—remained in the northern part of the square, between Changan and the monument. The statue of democracy looked more dramatic than ever, facing Mao's portrait and the troops beneath it through the flames and smoke that still billowed from the crippled A.P.C. At around 2:15, there was a terrific burst of AK-47 fire, lasting several minutes, from the vicinity of Tiananmen Gate. I hit the deck. Most of the crowd fled southward, toward the monument, but I saw no one injured.

At more or less the same moment, just a few hundred yards away, several hundred troops moved across from Tiananmen Gate to seal off the northeast entrance to the square, blocking off eastern Changan Boulevard to the north of the History Museum. A student named Ke Feng, one of the main organizers of the statue of democracy project, was hiding in a small park nearby. In the first five minutes or so, he saw about twenty people in the vicinity of the pedestrian underpass hit by "stray bullets," including "five people who fell and couldn't get up again." Some 500 troops emerged from behind the History Museum, although these did not appear to be carrying rifles. As another 200 to 300 advanced from the direction of Tiananmen Gate, the crowd began shouting, "Fascists!" and "General Strike!"; others sang the "Internationale." Ke Feng, still hiding nearby, tells of the soldiers "jumping for joy, as if playing a game. . . . An officer kept shouting through a megaphone for about fifteen minutes, 'Leave immediately, we'll shoot to kill!'"

In an extraordinary, suicidal act of defiance, someone drove an articulated twin-carriage bus at full speed straight at the soldiers. In the words of Kenneth Qiang, a council member of the Hong Kong Student Federation, "The driver was dragged out by soldiers and clubbed to the ground with their rifle butts. The crowd was incensed, and they ran forward to within fifty meters of the troops, throwing glass bottles at them. I heard two separate gunshots. The driver fell to the ground dead."

It was now around 2:30. The entire square had fallen silent, though gunfire was still audible in the distance. Taking advantage of the lull, I walked back to the workers' tents, which by now were a smoldering ruin. A young man pressed a small bundle of student leaflets into my hand. The emergency medical tent of the Beijing United Medical College, to the southeast of the statue of democracy, was a grim but heroic sight. The tent, staffed by some twenty volunteer doctors and medical students, stood virtually alone in this vast, deserted sector of the square. A small crowd of student pickets sat in a thin, wide circle around it, forming a "protective" perimeter. I spent perhaps a quarter of an hour inside, enough time to see four or five badly wounded people brought in on makeshift stretchers. One boy, probably a student, had taken a bullet in the side of his head, and was clearly dying. One doctor said five people had died in his hands in the previous hour or so.

By 3:00 I could see no other foreigners anywhere in the square. The foreign television crews had apparently evacuated the place. "I now feel guilty about the decision," the BBC's Simpson wrote later in *Granta*. "It was wrong: we ought to have stayed in the square, even though the other camera crews had already left and it might have cost us our lives." Simpson's decision, as we shall see, had a crucial impact on his reporting during the rest of the night.

I decided to find a vantage point on the raised area in front of the History Museum, thinking this would give me a clear view of the action while removing me from the scene of combat. But as I rounded the trees at the side of the museum and turned to climb the broad staircase in front of it, I froze. Several thousand steel-helmeted troops, each carrying an AK-47 and a long wooden cudgel, were sitting quietly on the steps. Across the square, in front of the Great Hall of the People, the same thing. If anything, there were even more soldiers on that side. I found myself thinking, "They've sealed off the square on all sides; they must be planning to kill us all," and hastily returned to the shelter of the trees.

The square was lit by eerie white light. The silence was broken only by distant gunfire and the surreal echo of the government loudspeakers. At approximately this moment, Richard Nations, the U.S. freelancer, was several hundred yards away at the monument. He described the scene in his notebook: "Monument seems surrounded by infantry with display of overwhelming armed force to north. Students seem to be stoically waiting for final hour—assault which now seems inevitable." The entry continues, "Meet Robin sitting in front of bushes on fence."

I later discovered that there were in fact about ten foreign journalists left in the square at 3:00, but I could have found no more resourceful a companion than Richard. Together we set out to explore the southern part of the square, which was littered with burning buses and cars but entirely empty of troops. (Access to the square was possible here until just after 6 A.M.) Unknown to us at the time, we passed within a stone's throw of the hiding place of a Hong Kong ATV television crew, who remained perched atop the public latrines in the southwest corner of the square until 4:30, when they judged the situation to be too dangerous and left.

### The Darkness Before Dawn

Abruptly, on the stroke of 4 o'clock, all the lights in Tiananmen Square went out. Back at the southeast corner of the monument, we waited anxiously, but the assault did not come. The students remained seated on the monument, just as before. No one made any move to leave. Noiselessly, as if in a dream, two busloads of student reinforcements appeared in the square from the southeast, coming to a halt yards from where we stood. The student loudspeakers crackled back to life and a voice announced—deadpan, as if reading a railroad schedule—"We will now play the 'Internationale,' to raise our fighting spirit." I wondered what the soldiers were feeling, out there in the dark. Were the students counting on the embarrassment factor to save them if all else failed?

But still the attack did not materialize. When some people set fire to the abandoned tents and piles of garbage to the west of the monument—perhaps so the assault would not take place in darkness—the student leadership rebuked them: "Keep order, stay calm. We must create no pretext whatsoever for them."

At about 4:15 an array of lights, like fairy lights on a Christmas tree, suddenly came on all across the front of the Great Hall of the People, filling the west side of the square with a soft, luminous glow. At the same time, floodlights went on along the facade of the Forbidden City. Next, the southernmost doors of the Great Hall swung open, disgorging a human river of gun-toting troops, many with fixed bayonets. According to CBS's Derek Williams, who was close by, "They came around and joined a large blocking force which stretched in an L-shape down the west side of the street and then cut across the square in front of the Mao Mausoleum." Troops now began firing at the monument from the History Museum steps, and we could see the sparks flying from the obelisk, high above head level.

It was now just after 4:30. The square was empty of people, and scattered with the forlorn debris of the abandoned encampment. The 3,000 or so students remained huddled on the steps and the three levels of the monument. Again, the student loudspeakers crackled to life, and someone who announced himself as a leader of the Beijing Students' Autonomous Federation took the microphone: "Students! We must on no account quit the square. We will now pay the highest price possible for the sake of securing democracy in China. Our blood shall be the consecration." My heart sank. After a few minutes, someone else spoke, this time a leader of the Beijing Workers' Autonomous Federation: "We must all leave here immediately, for a terrible bloodbath is about to take place. There are troops surrounding us on all sides and the situation is now extraordinarily dangerous. To wish to die here is no more than an immature fantasy." A lengthy silence ensued. Then Hou Dejian spoke. (Hou, a Taiwan-born popular singer, was one of four people who had begun a hunger strike on the monument on June 2.) "We have won a great victory," he said. "But now we must leave this place. We have shed too much of our blood. We cannot afford to lose any more. . . . We four hunger strikers will remain on the monument until everyone else has left safely, and then we too will leave."

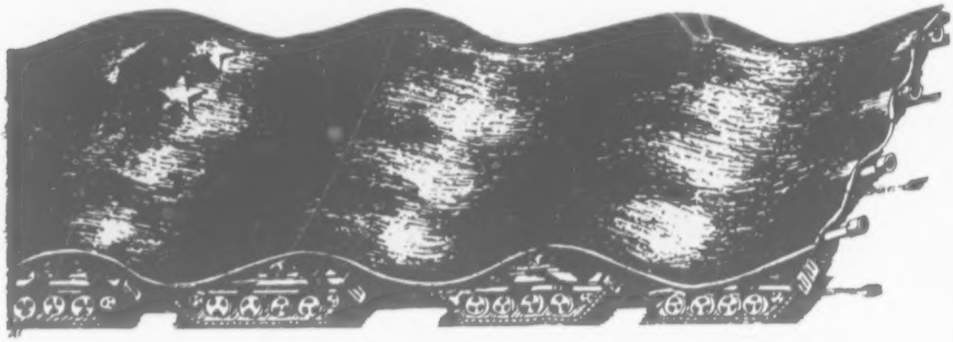
As Hou spoke, Richard and I decided to make one final trip to the monument. We picked our way slowly up the steps toward the hunger strikers' tent on the top level, through the tight ranks of seated students, who seemed largely oblivious of our presence (many were writing out their wills and farewell letters to their families). There was no hysteria, only courageous resolve. As we descended again by the steps on the east side, the loudspeakers had fallen silent. But a distant rumbling came from the northern sector of the square: The tanks had started up their engines.

Minutes passed, with nothing to break the spell. In the end, it took an obvious, even mundane move to break the tension: Someone took the microphone and proposed a voice vote. Opinions vary as to whether the shouts of "Stand firm!" were louder than the shouts of "Evacuate!" In any event, it was announced that the democratic decision had been in favor of leaving the square.

The question of what happened next has probably been the single biggest point of controversy in the reporting of the events of June 3-4 in Beijing. Correspondent Richard Roth of CBS had time to file one last report before soldiers arrested him and took him into the Great Hall of the People. "Soldiers have spotted CBS News cameraman Derek Williams and myself and are angrily dragging us away. And a moment later it begins: powerful bursts of automatic weapons, raging gunfire for a minute and a half that lasts as long as a nightmare. And we see no more." The film was confiscated. Roth's dramatic commentary, aired on the June 4 *CBS Evening News* and accompanied by footage shot two hours earlier, left the clear impression that troops had opened fire on the students as they evacuated the monument.

But there was no slaughter. Fermín Rodríguez and José Luis Márquez, a film crew from Televisión Española, shot the only known footage of the entire evacuation. Like Roth, they heard the sound of semiautomatic rifle fire as soldiers stormed the monument, but they say it was aimed at knocking out the student loudspeakers. Interviewed by Richard Nations, both men say they left the monument with the last of the students and saw no deaths. "There was absolutely nobody killed at the monument," said Rodríguez. "Everyone left and no one was killed."

What Nations and I saw, from our position twenty-five yards southeast of the monument, was unforgettable. For an agonizing minute, it seemed as if the students might not comply with the decision to leave. Then, slowly, they began to stand up and descend from the monument. As the first group filed past us, heading toward the open southeast corner of the square, we burst into spontaneous applause. Many in the ten-deep column, each contingent following the banners of its college, had tears rolling down their cheeks. All looked shaken; many were trembling or unsteady on



their feet. But all looked proud and unbeaten. One group shouted, "Down with the Communist Party!"—the first time I had ever heard this openly said in China. Richard, ever the professional, continued to take notes. In his notebook, he remarks, "The students' leaders had pulled off the most difficult maneuver in politics of any human enterprise, an orderly retreat."

**The Journalists**

But according to a widely reprinted "eyewitness" account, which first ran in a Hong Kong paper and was purportedly written by a student from Beijing's Qinghua University, nearly all of us had already been killed, mowed down at point-blank range by a bank of a dozen machine guns just after 4:00. The survivors were then either chased across the square by tanks and crushed or else beaten to death with clubs. This story was picked up by, among others, *The New York Times* (although reporter Nicholas Kristof quickly challenged it), *The Washington Post* and the *San Francisco Examiner*. In terms of lurid invention, it was in a class of its own. Astonishingly, however, it is only one of several such accounts, most of which say the mass slayings took place just before 5:00. Wuer Kaixi, one of the principal student leaders, said he had seen "about 200 students" cut down by gunfire in the predawn assault. But he was not there: He had been driven to safety in a van several hours earlier. How could these fabrications have gained so much acceptance?

There were, by my count, ten Western journalists in the vicinity of the monument at the time in question, as well as a handful of diplomats and Hong Kong Chinese. At least two of the reporters—Claudia Rosett of *The Asian Wall Street Journal* and John Pomfret of the Associated Press—filed accurate accounts of the evacuation, but these were isolated paragraphs buried in long reports from other parts of the city. With Roth and Williams of CBS under arrest in the Great Hall of the People, not to emerge until 5:30, the only foreign film footage of the evacuation is that taken by the Spanish TV crew, who insist they saw no killing. In an interesting footnote, their reporter, Juan Restrepo, who was separated from his crew all night, says that their film of the night's events was garbled by his editors at Televisión Española in Madrid, creating the false impression that killings had taken place during the evacuation of the square.

Of all the comments by TV reporters who left the square, perhaps the most telling are those of John Simpson, whose BBC news team won a raft of awards for its coverage of events in Beijing. Simpson, as we saw, felt remorseful about leaving. But his account for *Granta* reveals how the sense of impending disaster that led the news media to abandon the square also predisposed them to believe that the worst then actually happened: "Someone should have been there when the massacre took place, filming what happened, showing the courage of the students as they were surrounded by tanks and the army advancing, firing as it went." As dawn drew near on June 4, from a safe but very incomplete vantage point half a mile away on an upper floor of the Beijing Hotel (from which the Monument to the People's Heroes is completely hidden from view), Simpson wrote, "We filmed the tanks as they drove over the tents. . . . Dozens of people seem to have died in that way, and those who saw it said they could hear the screams of the people inside the tents over the noise of the tanks. We filmed as the lights in the square were switched off at four a.m. They were switched on again forty minutes later, when the troops and the tanks moved toward the Monument itself, shooting first in the air and then, again, directly at the students themselves, so that the steps of the Monument and the heroic reliefs which decorated it were smashed by bullets."

As Simpson's crew was filming, Japanese photojournalist Imaeda Koichi was in the northern part of the square. Koichi reports seeing no killing there, although he also says, "I did see some students in the tents, not many, only in three of the tents." Restrepo of Televisión Española had earlier checked all the tents in the vicinity of the Goddess of Democracy and says, "I can assure you that there were not more than five people inside the tents at around 3 A.M."

Richard Nations and I also witnessed the army's advance from the north. At 5:00, from a position next to the monument, where the evacuation was continuing, we saw that the goddess had vanished. We headed back north to investigate, walking for several hundred yards through the deserted tent encampment. A long line of tanks and A.P.C.s was rumbling toward the monument, crushing everything in its path—tents, railings, boxes of provisions, bicycles. The possibility remains that a handful of students were still in the tents. The Chinese government claims soldiers checked the tents for sick or exhausted students, but we clearly saw that the advancing infantrymen walked *behind* the tanks.

Back at the monument again, five minutes later, we saw that the top level was now swarming with soldiers, their guns pointed skyward. In our absence, the writer Lao Gui had witnessed what happened: "A small detachment of soldiers dressed in camouflage uniform rushed up to the monument, occupied the top of it and fired incessantly into the air. . . . Soon, there was no more sound from the broadcast station. The soldiers had shot the loudspeakers apart." The Spanish crew was also there when the commandos stormed the top level; they saw no killings. Claudia Rosett and Imaeda Koichi concur, although Kenneth Qiang told me later that one student on the second level had been shot in the leg. (A widely circulated Hong Kong magazine, *Chai Ling Zibai Shu*, quoted Qiang as saying he had seen "twenty to thirty students in a row at the front mowed down by gunfire"; this, he says, was a pure invention by the magazine.) By 5:30, the students had left the square. Moving back at precisely the same speed as the advancing A.P.C.s, they extracted every last ounce of moral victory from their retreat.

Lingering doubts about a small group of students who may have remained on the top level of the monument are dispelled by a recent remarkable eyewitness account by Yu Shuo, a former professor at People's University who now lives in exile in Paris. "As I was talking to [an army] officer," she says, "I suddenly realized that I was the last person left at the monument. As I walked down the terrace, I saw a line of characters on the relief: 'On June 4, 1989, the

Chinese people shed their blood and died for democracy.' As I turned around, I saw that a soldier was about to pierce a bed with his bayonet. I saw two feet sticking out from it. . . . I rushed forward and dragged the feet. A boy fell down from the bed; he was not completely awake yet. He was the last student to leave the square."

It will probably never be firmly established what happened to the only two other significant groups of people left in the square at that late hour. One was the medical team from Beijing United Medical College; they were the last people seen by a South American diplomat as he left the square at 5:20. The second was a small crowd of *laobaixing* outside the Great Hall of the People. Richard Roth and Derek Williams were amazed to see these people still there when the journalists were brought out at 5:30.

The two Americans were driven by jeep directly across the square to the Children's Cultural Palace just to the northeast, where they were detained for about eighteen hours. "We saw no bodies in the square," Williams recollects. His account of this short ride is crucial: It seems inconceivable that the troops would have taken foreign journalists through the square if, as was widely rumored, they were busy covertly disposing of dead bodies at the time.

By now it was broad daylight; the evacuation was complete. At the southern end of the square, Nations and I witnessed one final skirmish between stone throwers and soldiers who opened fire before running off with the crowd on their heels. We finally decided it was time to get the hell out. As far as we can ascertain, we were the last foreigners to leave Tiananmen Square. It was 6:15.

### Epilogue

After fifty days of occupation by the pro-democracy movement, the square had finally been "returned to the people." But still the killing did not stop. As the student column wound its way slowly to the northwest, about half a mile from the square at the Liubukou intersection, four tanks came hurtling down Changan Boulevard and crushed eleven of them to death. Shortly afterward, troops repeatedly fired on unarmed protesters just west of the Beijing Hotel, killing dozens. An unknown number of *laobaixing* were summarily executed in the days that followed, as troops combed the alleyways of Beijing looking for "hidden counterrevolutionaries."

To conclude, we should turn to two Chinese activists from last year's democracy movement, both of whom witnessed the final clearing of the square, for an answer to the question posed at the outset: Why does it matter where the massacre took place? Kong Jiesheng, a famous novelist and essayist, says: "Now, when the power-holding clique in Beijing is still unrepentant about the June 4 massacre but also sorely vexed by the criticisms and sanctions imposed by numerous countries, rebukes from outside China based on ill-founded concepts have given those vicious thugs precisely the 'spiritual shield' they so desperately need. It makes plausible their lengthy refutations of outside criticisms as being mere 'stuff and nonsense' and 'much ado about nothing'" – the very phrase used by General Secretary Jiang Zemin when asked by Barbara Walters, on ABC's *20/20* on May 18, about "the massacre in Tiananmen Square."

But Lao Gui should have the last word: "Because of hatred of the murderer, one sometimes cannot resist exaggerating the severity of the crime. This is understandable. . . . But those butchers then take advantage of this opportunity 'to clarify the truth,' using one truth to cover up ten falsehoods. They exploit the fact that no one died during the clearing of Tiananmen Square to conceal the truth that some deaths and injuries did occur there earlier. And they use the fact that there was no bloodbath in Tiananmen Square to cover up the truth about the bloodbaths in Muxidi, Nanchizi and Liubukou. Why do we give them such an opportunity?" ☐

# *AFL-CIO*
# *Committee on China*

## Report on China Since Tiananmen Square

***Delivered to the***
***AFL-CIO Executive Council***
***at***
***Bal Harbour, Florida***
***February 20, 1990***

The year 1989, the bicentennial of the French Revolution, was marked by mass movements for democracy and freedom throughout the world. The changes taking place in the Soviet Union and even more dramatically in nearly all the countries of Eastern Europe far exceed any predictions of even a year ago. In the midst of the West's euphoria over the changes in Eastern Europe, it must not be forgotten that Chinese workers and students were part of this world-wide mass movement for change until the violent crackdown of June 1989 and that the massacre at Tiananmen Square was the beginning of a new wave of vicious repression which continues today.

The AFL-CIO Committee on China was formed in February 1989, when the pro-democracy movement was beginning to raise hopes for real change in China. At its first meeting, on April 19, the Committee developed a program of inquiry to learn about and, where possible, to encourage these signs of progress. History was to alter the Committee's agenda.

In May 1989, enormous and peaceful demonstrations filled Tiananmen Square in the center of Beijing. In a development of great importance to trade unionists everywhere in the world, the Chinese students were joined by organized groups of workers. Even elements of the Chinese government and army began to support these protests and the demands for democracy.

Then, on June 3 and 4, the hopes were dashed. When it became apparent to Chinese authorities that the workers of China were going to support the students in the square and throw their weight into the pro-democracy protests, the Communist leadership made its fateful decision.

As the entire planet watched on television, the "Peoples' Liberation Army," on orders from old and fearful leaders, turned its tanks and guns on the demonstrators who had gathered in Tiananmen Square. The brutal slaughter of unarmed citizens -- students and workers, alike -- shocked the world. Of particular concern to free trade unionists was that the crackdown fell with special ferocity on workers, many of whom were executed in the aftermath of the uprising.

The Committee met on July 11, only one month after the massacre in Tiananmen Square. At that meeting, it heard a report from Mr. Liang Heng, Editor-in-Chief of the Chinese Intellectual magazine. Although Mr. Liang was not in China during the fateful spring of 1989, he was a leader of the democracy movement of the late 1970s. He is a prominent dissident in exile, with wide-ranging contacts in China. Mr. Liang emphasized the Chinese government's fear of the nascent independent workers' movement and urged the AFL-CIO to develop contacts with it through Hong Kong.

The Committee's third meeting on August 31 was particularly moving, since it was able to hear firsthand about the events of May and June in Tiananmen Square. James Seymour, a Senior Research Fellow at the East-Asian Institute of Columbia University, provided background about the economic changes and the growing political corruption that fueled the anger among students and workers in the 1980s. Mr. Hu Ming, a Chinese student now living in the United States, gave an emotional eyewitness account of the massacre itself. Brother Lee Cheuk Yan, the General Secretary of the Clothing Industry Workers' Union in Hong Kong, and a member of the Hong Kong Alliance in Support of the Patriotic Democratic Movement of China, was in the United States as a guest of the Committee. During his trip he met with trade unionists in several cities across the United States, besides his appearance before the China Committee.

Brother Lee gave the Committee a detailed account, based on his personal experiences, of the growth of the independent workers' movement in Beijing and other cities in the days before the crackdown. He was in the Chinese capital from May 31 to June 5 on a mission to bring assistance from Hong Kong to the democracy movement in Beijing. He was arrested for this work on June 5 and detained for several days.

Before his arrest, Brother Lee met on several occasions with leaders of the Beijing Workers' Autonomous Federation (WAF).

In the very brief time since its founding on May 19, the WAF signed up tens of thousands of members and adopted by-laws. A copy of these are attached to this report. Central to the WAF's principles was autonomy from any other organization, including the Chinese communist party. While the WAF was superseding the government-controlled labor federation, the All-China Federation of Trade Unions (ACFTU), the ACFTU was not immune to the changes going on. Certain elements within its structure were briefly supportive of the democracy movement in the days preceding the crackdown. This support dissipated quickly, however, on orders from the government, which carried out a purge of dissenters within the ACFTU.

Brother Lee urges the AFL-CIO to keep the issue of China and the government's repression alive in the United States, and to assist trade unionists and others who were able to leave China. While none of the speakers are optimistic about the political climate in the short term, all believe that change will come to China once the present leadership has passed from the scene.

The AFL-CIO invited Brother Lee to speak to its 18th Biennial Convention last November. It passed a resolution reaffirming the AFL-CIO's commitment to support human rights in China and to give whatever assistance possible to the independent trade union movement there. In addition, the Convention gave priority to developing a strong, independent trade union movement in Hong Kong.

The actions of the Bush Administration have been disappointing from the first and have now been revealed to be duplicitous and disgraceful. Not only were the initial sanctions announced after the Tiananmen massacre a woefully inadequate response to the brutal repression, but, we have now learned, President Bush ignored even his own mild sanctions through a secret high-level mission to Beijing in early July. Although arrests and executions continued after the secret July mission, the Bush Administration continues to cling to its policy of normalizing relations with the repressive Chinese regime. On November 30, President Bush vetoed an act of Congress protecting Chinese students in this country and, on December 9, sent another high-level delegation to toast the butchers of Beijing.

This policy is not in the interests of long-term American relations with China, whose people have rejected the current aging leadership. President Bush is operating under amoral geo-political and economic calculations which undermine the credibility of the America's leading position in the world as a defender of human rights.

As trade unionists, we are outraged that American companies continue to take advantage of an exploited, low-wage work force with few rights, and that the American government seems intent on promoting these business relationships. These investments, often undertaken in partnership with Hong Kong firms, undermine jobs in the United States while cynically rewarding the Chinese regime for its repression of workers. In the first nine months of 1989, U.S. trade with China via Hong Kong increased 57 percent compared to the same period in 1988.

Economic sanctions are most likely to be effective in influencing the Beijing government. The United States should act to end China's most favored nation trading status, against China's eligibility under OPIC, and to prevent its membership in GATT.

The AFL-CIO can be most effective in the long term by nurturing a genuine workers' movement in China. We must keep attention focussed on the fate of workers currently under arrest. There are tens of thousands workers in Chinese jails, including Han Dongfeng, a railway worker who became a key organizer of the Beijing WAF, and Wei Jingsheng, an electrician who has served almost 11 years for his role in the 1978 and 1979 democracy movement. The AFL-CIO should demand the release of these and all trade unionists imprisoned in the Peoples' Republic of China.

March 29 will mark the 11th anniversary of Wei Jingsheng's imprisonment. We call upon our brothers and sisters in the United States, and in the whole international free trade union movement, to mark that occasion with public protests and other appropriate actions. It is necessary through such public demonstrations to draw attention to the plight of oppressed workers and students in China, and to bring hope to all those who languish in that country's prisons.

Contacts with workers in China can best be made through Hong Kong and the AFL-CIO's Asian-American Free Labor Institute (AAFLI). The Committee urges AAFLI to maintain contacts with and offer support to any genuine trade unionists still in China, or who may now be in exile. The Committee hopes that AAFLI will be able to keep American trade unionists informed of developments in China through a solidarity newsletter or a comparable organ.

Moreover, a strong labor movement in Hong Kong will have an important influence in China after Hong Kong reverts to Chinese control in 1997. The AFL-CIO should support Hong Kong trade unionists who are committed to building viable, independent trade union organizations and other democratic institutions. The Committee recommends that the AFL-CIO set up a solidarity fund to support Chinese free trade unionism.

The Committee also calls on international bodies to focus attention on the human rights situation in China. We urge the United Nations Commission on Human Rights, which is meeting in Geneva now until March 9, to review the situation in China. We call for an ILO Commission of Enquiry on China. In addition, the AFL-CIO should oppose the election of a Chinese worker representative from the ACFTU to the ILO governing body.

At a time when the headlines are focussed on events in Europe and the Soviet Union, it is the responsibility of the international free labor movement to ensure that our colleagues in China are not forgotten. Today, China is one of the few countries where repressive government successfully resists popular aspirations for democracy and freedom. However, the seeds of a mass movement were planted by Chinese workers and students in the spring of 1989. The labor movement must help nurture those seeds and sustain them until the political climate changes in China.

## Speakers Who Appeared Before the Committee

Mr. Liang Heng
Editor-in-Chief
The Chinese Intellectual

Mr. James Seymour
Senior Research Scholar
East-Asian Institute
Columbia University

Mr. Hu Ming
Executive Director
North American Office
Front for Democratic China

Mr. Lee Cheuk Yan
General Secretary
Clothing Industry Workers General Union
Hong Kong

## The AFL-CIO Committee on China

Chairman

Mr. Morton Bahr, President
Communications Workers of America

Co-Chairman

Mr. Jay Mazur, President
International Ladies Garment Workers Union

Members

Mr. John DeConcini, President
Bakery, Confectionery and Tobacco Workers International Union

Mr. Wayne Glenn, President
United Paperworkers International Union

Ms. Lenore Miller, President
Retail, Wholesale and Department Store Union

Mr. Jack Sheinkman, President
Amalgamated Clothing and Textile Workers Union

Mr. Vincent Sombrotto, President
National Association of Letter Carriers

Mr. Milan Stone, President
United Rubber, Cork, Linoleum and Plastic Workers of America

Mr. Lynn Williams, President
United Steelworkers of America

**DRAFT**

# Statement by the AFL-CIO Executive Council
on
## China

February 00, 1990
Bal Harbour, Fla.

Though President Bush resents the charge that his China policy "kowtows" to the dictators of the People's Republic of China, that is an apt description of the U.S. government's attitude towards China, especially in regard to worker rights.

The actions of the Bush Administration have been disappointing from the first and have now been revealed to be duplicitous and disgraceful. Not only were the initial sanctions announced after the Tiananmen massacre a woefully inadequate response to the brutal repression, but, we have now learned, President Bush ignored even his own mild sanctions through a secret high-level mission to Beijing in early July. Although arrests and executions took place after the secret July mission, the Bush Administration continues to cling to its policy of normalizing relations with the repressive Chinese regime. On November 30, President Bush vetoed an act of Congress protecting Chinese students in this country and, on December 9, sent another high-level delegation to toast the butchers of Beijing.

This policy is not in the interests of long-term American relations with China, whose people have rejected the current aging leadership. President Bush is operating under amoral geopolitical and economic calculations which undermine the credibility of America's leading position in the world as a defender of human rights.

As trade unionists, we are outraged that American companies continue to take advantage of an exploited, low-wage workforce with few rights, and that the American government seems intent on promoting these business relationships. These investments, often undertaken in partnership with Hong Kong firms, undermine jobs in the United States while cynically rewarding the Chinese regime for its repression of workers. In the first nine months of 1989, U.S. trade with China via Hong Kong increased 57 percent compared to the same period in 1988.

Economic sanctions are likely to be most effective in influencing the Beijing government. The United States should act to end China's most-favored-nation trading status, to rescind China's eligibility under OPIC, and to prevent its membership in GATT.

The AFL-CIO can be most effective in the long term by nurturing a genuine workers' movement in China. Attention must remain focused on the fate of workers currently under arrest. There are tens of thousands of workers in Chinese jails, including Han Dongfeng, a railway worker who became a key organizer of the Beijing Workers Autonomous Federation, and Wei Jingsheng, an electrician who has served almost 11 years for his role in the 1978 and 1979 democracy movement. The AFL-CIO demands the release of these and all trade unionists imprisoned in the Peoples' Republic of China.

Contacts with workers in China can best be made through Hong Kong and the AFL-CIO's Asian-American Free Labor Institute (AAFLI). AAFLI will continue to maintain and expand contacts with and offer support to any genuine trade unionists still in China or who may now be in exile. AAFLI will keep American trade unionists informed of developments in China through a solidarity newsletter or a comparable organ.

In addition, a strong labor movement in Hong Kong will have an important influence in China after Hong Kong reverts to Chinese control in 1997. The AFL-CIO supports Hong Kong trade unionists who are committed to building viable, independent trade union organizations and other democratic institutions. The AFL-CIO will set up a solidarity fund to support Chinese free trade unionists in their struggle against the regime in Beijing.

The AFL-CIO calls on international bodies to focus attention on the human rights situation in China. The AFL-CIO urges the United Nations Commission on Human Rights, which is meeting in Geneva now until March 9, to review the situation in China. The AFL-CIO calls for the International Labor Organization to take all possible action under its supervisory machinery for labor rights against the Chinese government and its puppet labor federation, the All China Federation of Trade Unions (ACFTU). In addition, the AFL-CIO opposes the election of a Chinese representative from the ACFTU to the ILO governing body.

At a time when headlines are focused on events in Europe and the Soviet Union, it is the responsibility of the international free labor movement to ensure that our colleagues in China are not forgotten. Today, China is one of the few countries where repressive governments successfully resist popular aspirations for democracy and freedom. However, the seeds of a mass movement were planted by Chinese workers and students in the spring of 1989. The labor movement must help nurture those seeds and sustain them until the political climate changes in China.

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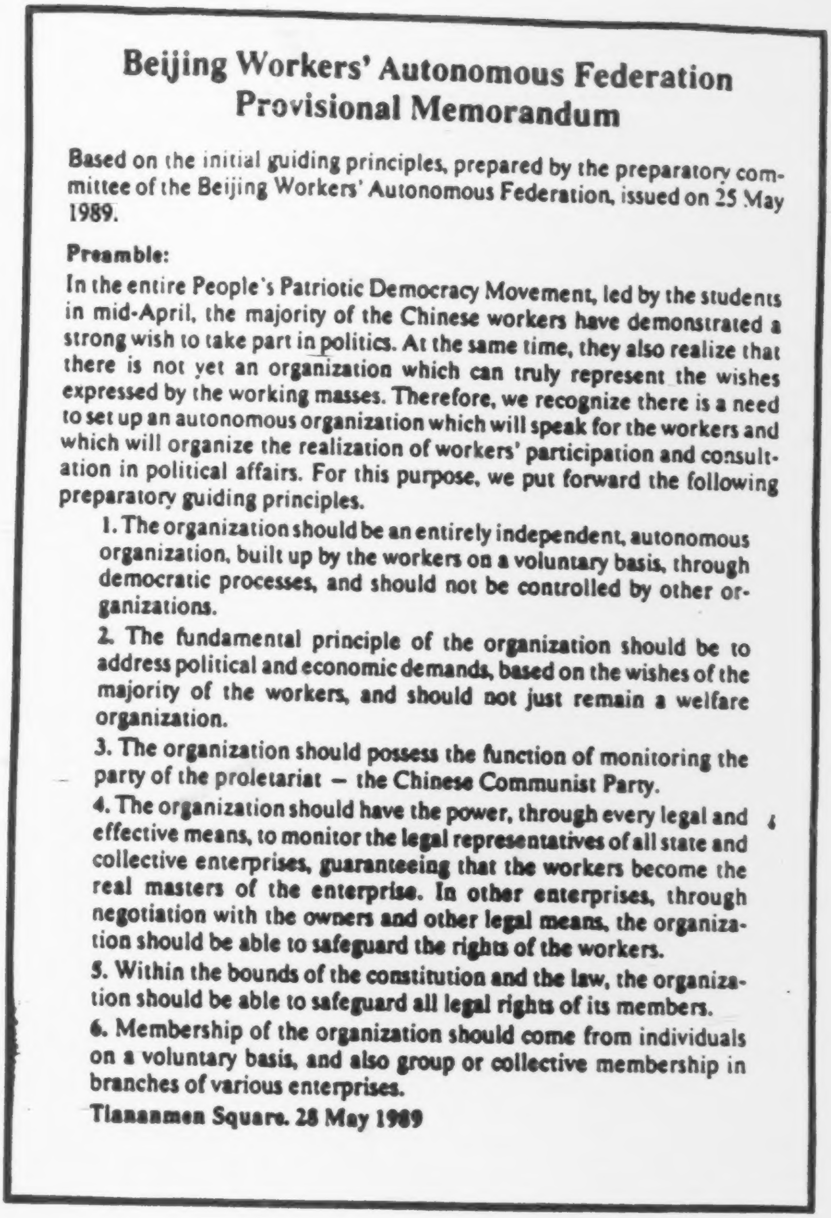

## Beijing Workers' Autonomous Federation Provisional Memorandum

Based on the initial guiding principles, prepared by the preparatory committee of the Beijing Workers' Autonomous Federation, issued on 25 May 1989.

**Preamble:**

In the entire People's Patriotic Democracy Movement, led by the students in mid-April, the majority of the Chinese workers have demonstrated a strong wish to take part in politics. At the same time, they also realize that there is not yet an organization which can truly represent the wishes expressed by the working masses. Therefore, we recognize there is a need to set up an autonomous organization which will speak for the workers and which will organize the realization of workers' participation and consultation in political affairs. For this purpose, we put forward the following preparatory guiding principles.

1. The organization should be an entirely independent, autonomous organization, built up by the workers on a voluntary basis, through democratic processes, and should not be controlled by other organizations.
2. The fundamental principle of the organization should be to address political and economic demands, based on the wishes of the majority of the workers, and should not just remain a welfare organization.
3. The organization should possess the function of monitoring the party of the proletariat – the Chinese Communist Party.
4. The organization should have the power, through every legal and effective means, to monitor the legal representatives of all state and collective enterprises, guaranteeing that the workers become the real masters of the enterprise. In other enterprises, through negotiation with the owners and other legal means, the organization should be able to safeguard the rights of the workers.
5. Within the bounds of the constitution and the law, the organization should be able to safeguard all legal rights of its members.
6. Membership of the organization should come from individuals on a voluntary basis, and also group or collective membership in branches of various enterprises.

**Tiananmen Square. 28 May 1989**

IMRA International Mass Retail Association, Inc.

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June 19, 1990

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing on behalf of the International Mass Retail Association (IMRA) to express our opposition to legislation that would revoke "most favored nation" (MFN) tariff status for the People's Republic of China. We respectfully ask that a copy of this letter be included for the record of your subcommittee's hearings on this issue.

While our members fully understand the impulse to "punish" the Chinese government for its deplorable crackdown on pro-democracy demonstrators in Tiananmen Square, we strongly believe that revoking MFN benefits would be counter-productive in the long run. Imposing drastically higher duties on Chinese exports would weaken those segments of the Chinese economy with which the United States has the most in common. The bulk of Chinese consumer product exports originate in the southern provinces and come from new quasi-private enterprises established in many cases by U.S. entrepreneurs. The provincial governments, the business leaders and the workers in South China are the most supportive of the pro-democracy forces within the PRC, and it is hard to see how punishing these provinces will have any effect on the Chinese government at large. Moreover, destroying this segment of the Chinese economy could have long-range implications for the future of political and economic reforms within China.

Closer to home, the imposition of prohibitive tariffs on Chinese exports would harm U.S. discounters and consumers. Chinese products provide an exceptional value for American consumers, and these imports of toys, consumer electronics and small appliances, and footwear cannot be easily replaced, domestically or abroad. Equally important, sudden revocation of MFN status imposes many market hardships for our member companies, many of whom have contracts for merchandise which will not be shipped until much later this year.

Finally, of course, is the matter of retaliation. China is a large purchaser of U.S. export products, and there is no doubt that the PRC will retaliate if the U.S. revokes its MFN status.

For all these reasons, we believe it would be counterproductive to revoke MFN benefits for China.

By way of background, IMRA is a trade association representing 140 major discount retail chains whose sales represent an overwhelming majority of the $130 billion a year discount retail industry. Our members collectively operate over 35,000 stores in all fifty states and employ millions of Americans.

Sincerely,

Robert J. Verdisco
Vice President
Government Relations

## STATEMENT OF
## SAMUEL Y. KUPPER, PH.D.

### THE NECESSITY FOR MOST FAVORED NATION STATUS

While taking second place to no one in my personal abhorrence of the government's actions in Tiananmen Square, and the subsequent techniques used by Deng Xiaoping and Yang Shangkun to distort the reality of the student movement, and the suppression of criticism, it is my belief, for reasons stated below, that it is in the interest of the United States to continue the Most Favored Nation [MFN] status for China.

1. United States Self Interest.

The basis of every successful foreign policy is that it must be based upon an identification of, and successful pursuit of the national interest of the United States. Our interests are varied, and range from the highest priority, the self-preservation of this nation, to others, in which express our hopes and wishes.

Among our highest priorities is the economic well-being of this nation, and our ability to pursue and develop our international trade. There are at least two significant aspects. First is the need for continuity and stability. The development of foreign trade requires time to establish the necessary relationships and framework. In developing foreign markets, you need to have a continuous and stable environment, with both parties knowing and understanding that unless events of significant proportions, force majeure, that trade will continue.

By being one of the signatory nations to UNICTRAL, the United Nations Convention on International Trade, together with the United States, and developing the legal infrastructure that recognizes copyright and patent law, China has made substantial progress,in a very short period of time, toward developing a more stable framework. These efforts by both China and the United States, are critical toward the development of long term relationships which will have a profound impact and effect on subsequent social, political and economic developments in China.

Stability is not served by emotional reactions designed to express hurt feelings. Once you sever the ties, disrupt the framework, and break the relationships, it is extremely difficult to re-establish them. Furthermore, neither party will quite again approach each other with a feeling of certainty and continuity.

Secondly, we must, as a nation, come to the realization that we are involved in an international economic arena. We do not live or act in isolation. Should we seek to withdraw from China, which would be the result of denying China MFN status, the void will be filled by Japan, Taiwan, Korea, and European nations. Who then are we hurting, China or the United States ? While China may suffer a temporary decline in export earnings, it will not have any positive impact on the United States. Goods produced in China will then be produced in other Asian nations. But the Chinese purchase of U.S. machinery and equipments will be curtailed both in the short and long term.

The United States no longer has a monopoly on exportable commodities. Would we prefer than China purchase 1,000 airplanes from Europe or from McDonnell Douglas and Boeing ? That is the choice. Would we prefer that the Chinese automobile and truck industry be reliant upon Japan and Germany without any involvement from the United States ? Would we prefer that the development of China's petro-chemical industry occur without U.S. involvement ? The list is endless. The choice is ours.

I have been to China three times since Tiananmen Square. The Japanese and Europeans are still very active in developing their business relationships. If we withdraw MFN status from China, we are helping our competitors and hurting ourselves.

2. Our Asian Prejudices.

As one who has studied Asia for over twenty-five years, and taught Asian history for the past eighteen years, I remain appalled at our lack of understanding of Asia, and the role our emotional prejudices play in the press and foreign policy. Our relationship with Asia, in general, and China, specifically, is one of love/hate.

We alternate in wild swings of emotional reactions. We loved Chiang K'ai-shek because he was a Christian. We ignored the reality of his dictatorship and the human economic suffering. We hated China because it became a communist nation. We then loved China when the Open Door policy began because it appeared that they were again looking to emulate the West. We now hate them because they don't ascribe, completely, to our values.

We "bash" the Japanese, by asserting that are buying the United States. It doesn't bother us that both the Dutch and British own more property in the United States than do the Japanese. We tell the Japanese and the Chinese, that you must be exactly like us, both in your economic and political structures. If Japan doesn't conduct her markets just like we do in the United States, we will threaten her with sanctions, the specter of Super 301. We haven't ~~raised~~ witnessed any emotional outbursts regarding the EEC rules which will require a defined percentage of local manufacturing content in certain goods sold in Europe after 1992.

3. The Lessons of History.

We also don't study our own history. We blithely assume that democratic institutions and forms of government are easy to establish. Our own history, after drawing on centuries of British history and tradition, plus our own colonial assemblies, did not prevent us from experimenting. First we had the Articles of Confederation. That failed, and the specter of mass uprisings, such as the Shay's Rebellion in Massachusetts, led us to the U.S. Constitution. And then, we had a Civil War to settle ongoing political and economic differences. We are tolerant of our own foibles and the imperfect nature of developing democratic institutions - lest we forget the Democratic convention in Chicago or Kent State.

We make no attempt to understand Asia, or Asian political, social or economic culture. I suggest that because Asia has a different cultural heritage, we fear them. When Asians become more like us, then our fear dissipates, and we seek to embrace them, we love them because they are becoming more like us.

Have we ever seriously contemplated the problems of economic and political modernization in a nation of over One Billion people, with vast regional differences, over one hundred dialects, with an almost non-existent transportation and communication infrastructure, with a society based on over Two Thousand Years of authoritarian/bureaucratic government, an agrarian society that has more than doubled in population in the last forty years, a political and social culture which always placed the collective good over the notion of individualism.

Have we, as Americans, become a society of instant gratification, with ten second "sound bites", thirty minute TV shows which provide instant solutions, so that we fail to understand and recognize the magnitude of the problems in China ?

China has far to go, and yet for anyone who has travelled to China would also recognize, significant progress has been made in the last decade. We now have Chinese lawyers, directors in factories studying modern management and production methods, exchanges of peoples and ideas, and most importantly of goods.

What we should do, and must do, is to keep progress moving, keep open the exchange of ideas, keep the flow of goods and people moving. As China modernizes, as her economy grows and develops, then the people of China will be able to demand their own changes. The great Chinese philosopher Mencius understood that you must first feed the people, that only when their physical needs are met will people then be concerned with ethics and morals - a democracy is the people determining their own ethical and moral choices based on their own culture.

We, as Americans, are the symbol to the rest of the world, of what a free people can accomplish. We represent the dreams and aspirations of the common man. Yet, we are not perfect. We have our own problems, we still grapple with issues of understanding the limits which any society can place on the limits of individual freedom within the context of a collective society. We have been, are and will always be confronted with the challenges of balancing the needs for stability and fairness versus individual choice.

While we are appalled at the specter of Tiananmen, we must place it in a context of over six weeks of demonstrations which were permitted, within a context of a society of over one billion people, living in approximately the same geographic size of the United States, with between one-fifth and one-tenth of the available land suitable for agriculture.

We can sit in moral judgment, but I urge that if one dons the robes of Solomon, then it be done very carefully. China is a poor country. Seventy percent of the people in Shanghai have no indoor plumbing. The government is trying to move from a planned, "iron rice bowl" economy, to one based on the market place. At the same time, it must insure that the people are clothed, fed, and housed.

One of the greatest fears of the people throughout Chinese history has been "luan" or disorder. One must move slowly in changing the nature of political and economic structures. From 1966 until 1978, at the latest, China was a nation in political turmoil. The last student uprisings, led by Mao Dzedong, had turned the nation in turmoil, the Cultural Revolution. In the last decade, China has made incredible strides forward, and the pace of those changes should not be measured, absolutely by our yardstick, but against the Chinese conditions.

4. Conclusion.

Our own enlightened self-interest, both in terms of continuing to participate in international trade, and in promoting the modernization of China require that we continue with the MFN status for China.

As we expand our trade and human intercourse with China, we are doing more than exchanging goods, we are also exchanging ideas and values. We need more contact, not less. We need to bring the benefits of modernization to the people of China, the people benefit from increased contact, and that increased contact will lead to the further political opening of Chinese society. And, the political modernization of China must come from the Chinese people.

I want America to take the lead, to resume its place as the leading economic power among the nations of the world. Withdraw from China and we cost American business and workers jobs and opportunities.

Not only must we continue to trade with China, maintain the Most Favored Nation Status, but we should actively expand our trading oportunities. Our free world partners, the Europeans, Japanese, Australians and Taiwanese are all busy investing and expanding their activities in China. Our enlightened self-interest requires that we become more active, not less, that we actively pursue opportunities to expand our economic, social and intellectual contacts. Not only will it benefit the United States, but it will benefit China. We cannot influence from afar, we cannot influence from a position of isolation.

Samuel Y. Kupper

For your information, my comments are based on over twenty years of Asian experience, including being an Associate Professor of Chinese History at California State University, Fullerton, and as an attorney/consultant for numerous corporations engaged in Asian trade.

**MBI, Inc.** 47 Richards Avenue, Norwalk, Conn. 06857 (203) 853-2000

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June 6, 1990

Mr. Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Longworth House Office Building, Room 1102
Washington, D.C. 20515

Dear Mr. Leonard:

The purpose of this letter is to express our support for renewal of Most Favored Nation trade status for the People's Republic of China.

We strongly support the ideals of democracy and believe that the people of China should be accorded all of the rights and privileges of a democratic society. We do not believe, however, that the imposition of trade sanctions is the most effective way of influencing the growth of democracy in China. Rather than hasten the development of democracy, trade sanctions will only serve to isolate China further and to allow the current atmosphere of repression to linger. Continued trade with the United States, on the other hand, will cause China to be exposed to our society and to be positively influenced by our democratic principles.

My company employs more than 750 people. If Most Favored Nation status is not extended, our business will suffer. As an importer of model cars, we would see duty rates increase from 6.8% to 70%. If that happens, we will no longer be able to sell this product at a realistic price and we will lose a significant part of our business. Our loss of income, combined with the losses other importers will experience, will adversely affect federal and state tax revenues. The loss of income will also mean that we will not be able to continue to support our current levels of employment which will have a serious negative impact on the local economy.

We believe, therefore, that it is in the best interests of both the United States and the People's Republic of China that the Most Favored Nation status be extended for an additional year.

Very truly yours,

W J Strausser

Warren J. Strausser
Executive Vice-President

WJS/jfw

## STATEMENT OF MONSANTO COMPANY CONCERNING U.S. - PEOPLE'S REPUBLIC OF CHINA (PRC) TRADE RELATIONS
## SUBCOMMITTEE ON TRADE
## COMMITTEE ON WAYS AND MEANS
## U.S. HOUSE OF REPRESENTATIVES

The Monsanto Company supports President Bush's decision to renew China's Most Favored Nation (MFN) status with a further review of this issue in one year. It is our view that continued American business involvement in China will aid progressive political and economic reforms. Withdrawal of MFN would have several negative effects. First and foremost, the resultant loss of Chinese exports to the U.S. would have a harsh effect on those in China who have been pressing for economic reforms. Moreover, loss of MFN would exacerbate the already difficult political climate in Hong Kong. And finally, American manufacturers making products for export to China would suffer loss of business, only to be replaced by competing producers in other countries who are both ready and eager to replace American made goods with their products.

Monsanto Company is a U.S. based diversified company making and marketing high value chemical and agricultural products, pharmaceuticals, low calorie sweeteners, industrial process equipment, man-made fibers, plastics and other performance materials. In recent years, Monsanto has averaged approximately $50 million in annual sales to China, almost entirely sourced from U.S. manufacturing operations. Although Monsanto's business with China is not large when compared to the company's overall portfolio, Monsanto views competing in China and the Asian markets as crucial to maintaining its global competitiveness in the years ahead.

It is through trade and constant business contacts with China that the U.S. can best educate the Chinese to the value of a market economy. To the extent that we continue these contacts in this difficult period, we can be a more positive influence for a return to the policies of reform and openness.

Removal of MFN would significantly impact the well being of the people of China and especially Hong Kong. As the key commercial link to China and a vital factor in Asian trade, a vibrant Hong Kong economy should be a powerful example of the benefits economic reform could bring to China. A decision to remove MFN would hurt the wrong people.

Chinese reaction to the removal of MFN would negatively affect American manufacturers. Other suppliers would readily replace American goods with those made in their own countries and once lost, that market position would be difficult to recover.

For the above reasons, Monsanto supports the President's decision to extend China's MFN status for an additional year.

June 25, 1990